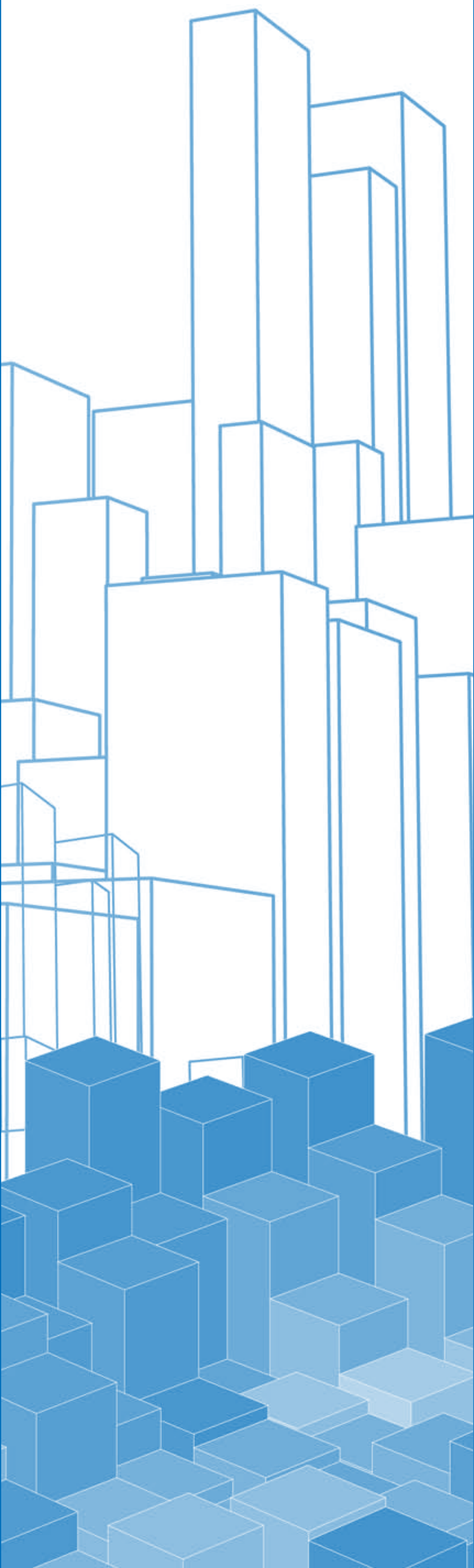
中國基建投資有限公司

# China Infrastructure Investment Limited

Stock Code：600

# Annual Report 2010



# Contents

# Corporate Information

## BOARD OF DIRECTORS

*Executive Directors:*

| | |
|---|---|
| LAW Kar Po | *(Chairman)* |
| YANG Tian Ju | *(Vice Chairman)* |
| SHI Feng Ling | *(Chief Executive Officer)* |
| MAN Wai Ping | |
| CHIANG Kin Tong | |
| LAW Wing Yee, Wendy | |
| LEE Siu Yuk, Eliza | |

*Independent Non-executive Directors:*

KWOK Hong Yee, Jesse#
ZHANG Yong#
KEUNG Kwok Hung#

*(# Members of Audit Committee)*

## COMPANY SECRETARY

LAW Chun Choi

## SOLICITORS

*On Hong Kong Law*
Reed Smith Richards Butler

## AUDITORS

HLB Hodgson Impey Cheng

## HEAD OFFICE

Room 2007, 20th Floor,
West Tower, Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

## REGISTERED OFFICE

The Harbour Trust Co. Ltd.
Windward 1, Regatta Office Park,
West Bay Road, Grand Cayman,
Cayman Islands

## SHARE REGISTRARS & TRANSFER OFFICE

*Principal Registrars*
The Harbour Trust Co. Ltd.
Windward 1, Regatta Office Park,
West Bay Road, Grand Cayman,
Cayman Islands

*Registrars in Hong Kong*
Tricor Standard Limited
26th Floor, Tesbury Centre,
28 Queen's Road East, Wanchai,
Hong Kong

## BANKERS

The Hongkong and Shanghai Banking Corporation Limited
The Shanghai Commercial Bank Limited
Wing Hang Bank, Limited
Industrial and Commerical Bank of China Limited, Shenyang Branch

# Chairman's Statement

On behalf of the board of directors of China Infrastructure Investment Limited (the "Company"), I am pleased to present the final results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

The turnover of the Group for the year ended 31 December 2010 was approximately HK$526 million, which represented a growth of over 24 times as compared with approximately HK$21 million in 2009. The total sale proceeds for the Shenyang Project for the year ended 31 December 2010 was approximately RMB475 million. The profit attributable to owners of the Company for the year ended 31 December 2010 was approximately HK$12 million, compared with the loss attributable to owners of the Company of approximately HK$136 million over the corresponding period of 2009. The change was due to profit on sales of trading properties and gain arising on change in fair value of investment properties from Shenyang Project during the year under review.

The disposal of Hotel Golden Dragon (Macao) Company Limited was completed in January 2010, which marked the completion of the Group's strategic withdrawal from the Macau market. In 2010, the Group's property development and investment activities were principally based in mainland China. The development project of Pan-China Commercial Square is situated at the most vibrant location in Shenyang, the "Golden Corridor", comprising residential buildings, shopping malls, service apartments and commercial office buildings.

Following the strategic shift and re-positioning of corporate businesses in 2009, the Group streamlined its business focus by concentrating its resources on infrastructure project in mainland China. On the macroeconomic front, benefited from the economic stimulus programs launched by the Central Government, the economy of mainland China is expected to maintain a robust growth momentum. Meanwhile, urbanization will be the dominant theme in mainland China's development for the next 20 to 30 years. The urbanization process, as supported by the Central Government's macroeconomic policies, will serve to promote urban infrastructure development and rapid development of public facilities, thus offering tremendous potential for investment. Against the backdrop of rapid urbanization in China, second and third tier cities are thriving rapidly which are attractive investment alternative as they have greater potential for development, thus are of higher commercial value. Recently, the Central Government has enacted various policies to curb speculation in real estate investments. As a result, the Group would incur higher cost of project financing and the gross profit of properties sold would be squeezed in light of rising development costs. In view of the rapid urbanization and the growth in demand for infrastructure in mainland China, the Group will continue to put more efforts in those infrastructure investments in mainland China with a good potential return.

Last but not least, I would like to take this opportunity to express my heartfelt thanks to our fellow directors and staff for their hard work and valuable contribution to the Group. I would also like to express my sincere gratitude to our shareholders and business partners for their continuing support and trust. We will continue to strive to achieve sustainable growth and maximize corporate value.

**Law Kar Po**
*Chairman*

11 February 2011

## BUSINESS REVIEW

The profit attributable to owners of the Company for the year ended 31 December 2010 was approximately HK$12 million, compared with the loss attributable to owners of the Company of approximately HK$136 million for the year ended 31 December 2009. The change was due to the profit on sales of trading properties and gain arising on change in fair value of investment properties from Shenyang Project. The turnover of the Group for the year under review increased by approximately 24 times as compared with last year.

During the year under review, the Group completed the strategic withdrawal from all its Macau operations following the completion of disposal of the last remaining Macau investment in January 2010.

### PRC Projects

*Properties development and investment*

*Shenyang Project*

The Group has a 70% interest in the development project of Pan-China Commercial Square in Hunnan New District, Shenyang, the PRC, which is opposite to the Shenyang Olympic Gymnasium Center while the remaining 30% is held by Pan-China Construction Group Corporation Limited. The development project has a site area of approximately 75,532 square metres which is planned to develop into a landmark composite development project with a total gross floor area of approximately 455,000 square metres, comprising residential buildings, shopping malls, commercial office buildings and service apartments.

The residential buildings consist of six blocks with 1,105 residential units and 46 ground floor stores. Pre-sale had commenced in June 2008. As at 31 December 2010, it was confirmed that 867 residential units, 19 ground floor stores and 163 parking spaces of the residential buildings were sold, with total sale proceeds of approximately RMB475 million.

The first phase of the shopping mall has been completed. The shopping mall houses a number of famous enterprises and brands, such as Shenyang McDonald's (Restaurants Food) Company Limited ("瀋陽麥當勞"), Wal-Mart (China) Investment Company Limited ("沃爾瑪(中國)"), 廣州金逸影視投資集團有限公司 (Guangzhou Jin Yi Cinema Investment Group Limited*), 瀋陽蘇寧電器有限公司 (Shenyang Suning Appliance Company Limited*), Ahssen International Fitness Club ("艾森國際健身俱樂部"), KFC, NIKE, The North Face, LI-NING and etc..

The topping-up work of the service apartment has been completed and it is expected that the interior construction work would be completed in 2011. This service apartment is the landmark construction at Hunnan New District, Shenyang, and it targets at the middle-class to upper-class market. The total developable area is expected to be above 40,000 square metres and a good sales record is anticipated to be achieved.

The focus of macroeconomic policy has changed. According to a series of regulatory policies on the residential real estate market promulgated by the Chinese government, the leading role previously played by residential real estate in the nation's economy will gradually change, and the commercial real estate, due to less affected by the changed macro-control policy, will get better in 2011. In pursuit of regional economic development, Shenyang witnessed a rapid economic growth in recent years, enjoying an average annual GDP growth rate of nearly 14%, and the rapid economic growth accelerated the process of its urbanization. Hunnan New District, as a key development area in Shenyang, has formed relatively large high-tech development zones and residential zones. Its economy has developed quickly due to favourable government policies.

Metro Line No. 2, the nearest metro line to the development project, will start trial operation in 2012, and the Twelfth National Games will be held at the Olympic Gymnasium Center, which is opposite to the development project, in 2013. With a concentration of people and industry clusters brought by accelerated urbanization, it will result in continual strong demand for shopping stores, apartments and office buildings. The macroeconomic policies and regional development have been progressing, which will further strengthen the growth of this development project.

* For identification purpose only

### *Infrastructure*

*Yancheng Power Plant*

On 22 December 2009, the Board announced that the Company and the vendor entered into a termination agreement to terminate the acquisition of Yancheng Power Plant (the "Termination Agreement"). Pursuant to the Termination Agreement, the vendor shall refund to the Company the entire amount of deposits paid, being HK$140 million, on or before 30 June 2011, but subject to the current benchmark interest rate as promulgated by the People's Bank of China on the outstanding balance payable by the vendor to the Company with effect from 1 January 2011.

## Hong Kong Projects

### *The Sun's Group Centre*

For the purpose of future expansion, the Group acquired a property, located at 29th Floor, The Sun's Group Centre, No. 200 Gloucester Road, Hong Kong (the "Property"), in 2008 for the Group's permanent office upon expiry of the Group's tenancy agreement of the office located at Shun Tak Centre. Nevertheless, expansion of the Group had been slowed down in 2009 owing to poor economic climate resulting from the global financial crisis. In July 2009, the Group renewed the tenancy agreement with the current tenant of the Property as the renewed rental was better than the market rental for similar premises. Thus, the Property would not be used as the Group's permanent office.

Given that there was a change in the intended use of the Property and the disposal of the Property would generate a profit to the Group, the Board announced that on 15 December 2009, a provisional sale and purchase agreement (the "Provisional Agreement") was entered into between the purchaser and Patient Holdings Limited (the "Vendor"), a wholly-owned subsidiary of the Company in relation to the disposal by the Vendor of the Property for a total consideration of HK$84.9 million. The consideration for the disposal was determined after arm's length negotiations between the purchaser and the Vendor with reference to the original price of the Property as paid by the Vendor and the recent transaction prices of properties nearby. The completion of the Provisional Agreement successfully took place on 17 March 2010 and the profit before taxation on the disposal was approximately HK$6.9 million.

### Macau Projects

*Hotel and entertainment business*

*Hotel Golden Dragon (Macao) Company Limited*

Hotel Golden Dragon (Macao) Company Limited ("HGD") owns Hotel Golden Dragon, a hotel with the same name. The Group through its wholly-owned subsidiary, Pearl Oriental Macau Limited ("Pearl Oriental Macau"), has a 40% interest in HGD which has a 60% interest in Sunny Tourist & Entertainment Company Limited that provides tourist and related services.

The Group decided to dispose of its interest in HGD, the last remaining investment in Macau, in line with its strategy to progressively exit the Macau market. On 28 November 2009, a disposal agreement was entered into between the Company and U Wah Hotel Management Limited which was a connected person of the Company with regard to the disposal of (i) the sale share, being the entire interest of Pearl Oriental Macau and (ii) the shareholder's loans (being approximately HK$346.7 million) by the Company, for an aggregate consideration of HK$400 million (the "Disposal"). The completion of the Disposal successfully took place on 29 January 2010. Thereafter, the Group no longer has any business or investment in Macau.

## HUMAN RESOURCES

At 31 December 2010, the Group had a total of approximately 240 staff in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing industry practices so as to retain the competent and talented employees. The Group provides benefits such as training programme to staff in order to maintain the competitiveness of the staff and to enhance their senses of loyalty. The Company has a share option scheme for the purpose of providing incentives and rewards to the eligible persons including the employees of the Company for their contributions to the long term success and prosperity of the Group.

## FINANCIAL REVIEW

### Results

For the year ended 31 December 2010, the Group reported a turnover of approximately HK$526 million, compared with approximately HK$21 million for the year ended 31 December 2009. The profit attributable to owners of the Company for the year ended 31 December 2010 was approximately HK$12 million as compared with the loss attributable to owners of the Company of approximately HK$136 million in last year.

### Capital Structure

The capital structure of the Group consisted of debt (which included borrowings and convertible notes), cash and bank balances and equity attributable to owners of the Company, comprising issued share capital and reserves of the Group.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group monitors its liquidity requirements on a short to medium term basis and arranges refinancing of the Group's borrowings when appropriate. At 31 December 2010, the underlying current ratio, defined as current assets over current liabilities, was approximately 1.97 (2009: 1.58). At 31 December 2010, the underlying gearing ratio, defined as the total borrowings over total equity (including non-controlling interests), was approximately 16% (2009: 36%) while the current liabilities to the total assets ratio was approximately 26% (2009: 42%).

At 31 December 2010, the Group's equity attributable to owners of the Company was approximately HK$1,004 million, an increase of approximately 3% over last year end which was approximately HK$975 million. The net current assets at 31 December 2010 was approximately HK$509 million (2009: HK$596 million) while cash and bank balances at 31 December 2010 was approximately HK$362 million (2009: HK$251 million).

## FINAL DIVIDEND

The Board has resolved not to propose any final dividend for the year ended 31 December 2010 (2009: HK$nil).

## CONTINGENT LIABILITIES

At 31 December 2010, Pan-China (Shenyang) Real Estate Development Limited ("Pan-China (Shenyang)"), which is a subsidiary of the Group, acted as guarantor for repayment of the mortgage bank loans granted to the purchasers of the properties of Pan-China (Shenyang) amounted to approximately HK$124 million (2009: HK$29 million).

At 31 December 2010, the Group had no other significant contingent liabilities (2009: HK$nil).

## CHARGE ON ASSETS

At 31 December 2010, assets of the Group amounting to approximately HK$1,011 million (2009: HK$1,031 million) were pledged for the Group's borrowings and general credit facilities as set out in Note 34 to the consolidated financial statements.

## FOREIGN CURRENCIES

During the year, most of the business transactions, assets and liabilities of the Group were denominated in Hong Kong Dollars and Renminbi. The Group had no material foreign exchange exposure risks during the year.

## PROSPECT OF THE GROUP

The management will continue to look for investment opportunities in relation to the city infrastructure projects in the PRC so as to expand the development portfolio of the Group in the future. In this regard, investment opportunities which offer satisfactory returns to the Shareholders within the acceptable risk profile of the Group and expected return will be considered.

On 5 November 2010, the Company has entered into an option agreement (the "Agreement"), pursuant to which the Company has been granted the option to acquire certain investments operating in natural gas related projects in the PRC; and to dispose of Shenyang Project (the "Transactions"). The option is exercisable by the Company from the date of the Agreement to 18 February 2011. However, the Company has the right to extend the exercise period for the option to 20 May 2011 if, due to no fault of the Company, the conditions precedent to the Transactions are not fulfilled on or before 18 February 2011.

The board of directors (the "Board") and the Management of the Company are committed to the principles of corporate governance and to maximize shareholders' value. These principles and objectives enhance the transparency, accountability and independence of the Company and its ability to attract investment and protect rights of shareholders. The Company continues to review the effectiveness of corporate structure so as to assess whether changes are required and appropriate to improve its corporate governance practices.

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted its own code on corporate governance practices which incorporates all the code provisions in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Directors confirm that, throughout the financial year, the Company complied with the code provisions of the Code with a deviation of code provision A.4.1 which stipulates that non-executive directors (including independent non-executive directors) should be appointed for a specific term, subject to re-election. The term of office for non-executive Directors including independent non-executive Directors of the Company is not specific. It is provided in the Company's articles of association that all the Directors are subject to retirement by rotation at least once every three years at the annual general meetings and are eligible for re-appointment. The Directors are of the view that such provision in the Company's articles of association has been able to safeguard corporate governance.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a stringent code of conduct governing directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules throughout the financial year. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

## BOARD OF DIRECTORS

Each Director has a duty to act in good faith and in the best interests of the Company for the manner in which the affairs of the Company are managed, controlled and operated. The Directors are collectively responsible for the success of the Company. The Board, at 31 December 2010, comprised:

(a) seven executive Directors, namely Mr. Law Kar Po (Chairman), Mr. Yang Tian Ju (Vice Chairman), Ms. Shi Feng Ling (Chief Executive Officer), Mr. Man Wai Ping, Mr. Chiang Kin Tong, Ms. Law Wing Yee, Wendy (who is a daughter of Mr. Law Kar Po) and Ms. Lee Siu Yuk, Eliza;

(b) three independent non-executive Directors, namely Mr. Kwok Hong Yee, Jesse, Mr. Zhang Yong and Mr. Keung Kwok Hung and one of whom has appropriate professional qualifications, accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules.

The Company considers that the Board has a range of the necessary skills and experiences for discharging their duties. All Directors have been kept informed of major changes on a timely basis by the Senior Management that may affect the Company's business.

## INDEPENDENT PROFESSIONAL ADVICE

The Directors may, in appropriate circumstances, take independent professional advice or external consultants including counsel and etc. at the Company's expense. Counsel was engaged to provide the Board with advice on legal matters.

## BOARD MEETINGS

The Board meets regularly to set up the objectives of the Company, make decisions on strategic plans and budgets, monitor the performance of the Senior Management, determine and review the strategy of the Company, and oversee the Company's compliance with statutory and regulatory obligations ensuring there is a sound system of internal control and risk management with a goal of protecting the interests of all shareholders.

Sufficient notices accompanying with agendas for regular and non-regular board meetings were given to all of the Directors so that full attendance could be attained and the best business decisions could be made with information supplied. The Board conducts meeting on a regular and ad hoc basis, as required by business needs.

The Board held totally five board meetings during the financial year and the attendance of individual director is recorded as follows:

### Attendance Record of Board Meetings (1 January 2010 – 31 December 2010)

| | | Attendance | Attendance Rate |
|---|---|---|---|
| Number of board meetings | | 5 | |
| *Executive Directors* | | | |
| LAW Kar Po *(Chairman)* | | 4/5 | 80% |
| YANG Tian Ju *(Vice Chairman)* | (appointed on 8 January 2010) | 4/5 | 80% |
| SHI Feng Ling *(Chief Executive Officer)* | | 4/5 | 80% |
| MAN Wai Ping | | 4/5 | 80% |
| CHIANG Kin Tong | | 3/5 | 60% |
| LAW Wing Yee, Wendy | | 2/5 | 40% |
| LEE Siu Yuk, Eliza | | 5/5 | 100% |
| WANG Biao | (resigned on 8 January 2010) | 0/0 | N/A |
| *Independent Non-executive Directors* | | | |
| KWOK Hong Yee, Jesse | | 4/5 | 80% |
| ZHANG Yong | | 5/5 | 100% |
| KEUNG Kwok Hung | (appointed on 26 August 2010) | 1/2 | 50% |
| LAU Wai Ming | (resigned on 1 June 2010) | 2/2 | 100% |
| LI Kam Fai, Dominic | (resigned on 1 June 2010) | 2/2 | 100% |

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of performance of their duties. The insurance coverage is reviewed on an annual basis.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has to appoint at least three independent non-executive directors and one of whom must have appropriate professional qualifications or accounting or related financial management expertise. During the financial year, the number of independent non-executive Directors ("INEDs") of the Company had once fallen below three. Following the resignation of two INEDs on 1 June 2010, the Company and the Audit Committee only had two INEDs and two members respectively, each of which fell below the minimum number and in each case it did not meet the requirement that at least one of the INEDs must have appropriate professional qualifications or accounting or related financial management expertise as set out in the Listing Rules. Subsequently, on 26 August 2010, a new independent non-executive director with appropriate professional qualifications, accounting and related financial management expertise has been appointed, as required under Rule 3.10(2) of the Listing Rules, who has also been appointed as a member of the Audit Committee of the Company on the same date.

The Board is aware of other commitments of the INEDs and is satisfied that these do not conflict with their duties as Directors of the Company. The Company has received from each of the INEDs an annual confirmation of his independence required by Rule 3.13 of the Listing Rules. Based on these confirmations, the Company considers that each of the INEDs is independent.

The terms and conditions of appointing the INEDs are available for inspection at the Company's registered office.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In order to comply with code provision A.2.1 of the Code and to reinforce the respective independence and accountability, the role and function of the Chairman and the Chief Executive Officer of the Company are segregated.

Mr. Law Kar Po is the Chairman of the Company while Ms. Shi Feng Ling is the Chief Executive Officer of the Company. Their respective responsibilities are clearly established and defined by the Board in writing.

## THE BOARD AND SENIOR MANAGEMENT

The Board, headed by the Chairman, is responsible for formulation and approval of the Company's development and business strategies and policies, approval of annual budgets and business plans and supervision of the Senior Management for the best interest of the Company. The Board regularly reviews and ensures that corporate governance principles are in place and at good standard.

The task of the Senior Management is to successfully implement the strategy and direction as determined by the Board. In doing so, they must apply business principles and ethics which are consistent with those expected by the Board and shareholders. The Board delegates the Senior Management to identify investment opportunities, implement internal control and risk management, compile financial reports and discharge day-to-day management of the Company's operations. The Board establishes the strategic direction of the Company and monitors the performance of Senior Management. The Senior Management is responsible for the day-to-day operations and administration function of the Group under the leadership of the executive Directors. Powers delegated by the Board to the Senior Management include implementation of the strategy and direction determined by the Board, operation of the Group's daily businesses and compliance with applicable laws and regulations.

During the financial year, the Remuneration Committee reviewed the remuneration packages of the Directors and the Senior Management, including discretionary bonus, which were based on individual performance, skill and knowledge, involvement in the Group's affairs and performance and profitability of the Group.

## BOARD COMMITTEES

The Board has established internal committees which are of no less compliance requirements than those set out in the Code of the Listing Rules, namely, Remuneration Committee, Nomination Committee and Audit Committee. To further reinforce independence, the Remuneration Committee, Nomination Committee and Audit Committee are structured to include a majority of independent non-executive Directors.

## REMUNERATION COMMITTEE

At 31 December 2010, the Remuneration Committee was chaired by Mr. Law Kar Po with committee members comprising three independent non-executive Directors, namely Mr. Kwok Hong Yee, Jesse, Mr. Zhang Yong and Mr. Keung Kwok Hung. The Remuneration Committee is composed of a majority of independent non-executive Directors that brings an independent and objective view to the remuneration packages of the executive Directors and Senior Management of the Company which provides a significant degree of security for shareholders. No director should be involved in deciding his/her own remuneration.

The Remuneration Committee makes recommendations to the Board for the remunerations and benefits of the Chairman, the Directors and the Senior Management of the Company. The responsibilities of the Remuneration Committee are described in the terms of reference adopted. Details of the remunerations of the Directors are shown on pages 78 to 80 of this Annual Report. The Remuneration Committee had met once during the financial year.

## NOMINATION COMMITTEE

At 31 December 2010, the members of the Nomination Committee included three independent non-executive Directors, namely Mr. Kwok Hong Yee, Jesse, Mr. Zhang Yong and Mr. Keung Kwok Hung with Mr. Law Kar Po as the Committee Chairman. The Nomination Committee is responsible for making recommendations to the Board for its approval on the appointment of Directors, evaluation of board composition and the management of board succession with reference to certain guidelines as endorsed by the Committee. These guidelines take account of appropriate industry experience, professional ethics and knowledge, personal skills and time commitments of members.

The Nomination Committee carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. The Chairman of the Committee, in consultation with the person responsible for human resources and the secretary of the Nomination Committee, should be primarily responsible for drawing up and approving the agenda for each Nomination Committee meeting. Potential candidates are then considered at the Nomination Committee meetings based on their experience, professional qualifications and their expected remuneration packages. The Nomination Committee held two meetings during the financial year.

## AUDIT COMMITTEE

The Audit Committee reviews the Company's financial reports, internal controls and corporate governance issues and makes relevant recommendations to the Board. The written terms of reference which describes the authority and duties of the Audit Committee has been prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" and "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, and amended in accordance with the Code.

During the financial year, the number of the Audit Committee members had once fallen below three and it did not meet the requirement that at least one of the INEDs must have appropriate professional qualifications or accounting or related financial management expertise as set out in the Listing Rules. Subsequently, on 26 August 2010, a new independent non-executive director with appropriate professional qualifications, accounting and related financial management expertise has been appointed, as required under Rule 3.10(2) of the Listing Rules, who has also been appointed as a member of the Audit Committee of the Company on the same date.

At 31 December 2010, all the committee members are INEDs and one of whom possesses appropriate professional qualifications, accounting or related financial management expertise. The Chairman of the Committee, Mr. Keung Kwok Hung, is a qualified accountant and has the relevant financial experience. Other members are Mr. Kwok Hong Yee, Jesse and Mr. Zhang Yong. None of the Audit Committee members are members of the former or existing auditors of the Company.

The Audit Committee held two meetings during the financial year and the attendance of individual member is recorded as below. During the meetings, the Audit Committee reviewed the accounting principles and practices adopted by the Group, the interim and annual reports of the Group and discussed with the Senior Management on auditing, internal control and financial reporting matters.

### Attendance Record of Audit Committee Meetings (1 January 2010 – 31 December 2010)

| | | Attendance | Attendance Rate |
|---|---|---|---|
| **Number of audit committee meetings** | | 2 | |
| *Independent Non-executive Directors* | | | |
| KWOK Hong Yee, Jesse | | 2/2 | 100% |
| ZHANG Yong | | 2/2 | 100% |
| KEUNG Kwok Hung | (appointed on 26 August 2010) | 1/1 | 100% |
| LI Kam Fai, Dominic | (resigned on 1 June 2010) | 1/1 | 100% |
| LAU Wai Ming | (resigned on 1 June 2010) | 1/1 | 100% |

## AUDITORS' REMUNERATION

During the year ended 31 December 2010, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditors is set out below:

| | HK$'000 |
|---|---|
| Audit services | 1,326 |
| Non-audit services | 1,867 |
| | 3,193 |

## DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors aim to present the consolidated financial statements of the Group in accordance with the statutory requirements and applicable accounting standards. The Directors ensure the publication of consolidated financial statements of the Group in a timely manner that the final and interim results of the Group are announced within the three months and two months limit respectively after the end of the relevant periods prescribed under the Listing Rules.

The consolidated financial statements of the Group for the year ended 31 December 2010 have been reviewed by the Audit Committee and audited by the external auditors, HLB Hodgson Impey Cheng.

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of the Group to continue as a going concern. The Statement of the Auditors about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report.

## INTERNAL CONTROL

The Board is committed to manage risk and to control its business and financial activities so as to maximize profitable business opportunities, avoid or reduce risks which can cause loss or damage to reputation, ensure compliance with applicable rules and regulations, and enhance resilience to external events. The Board has delegated to the Senior Management the implementation of such systems of internal control as well as risk management. The effectiveness and adequacy of the systems of internal control and risk management are reviewed periodically by the Board and the Audit Committee. Based on the assessment made by them for the financial year, the Board is satisfied that the internal controls and accounting systems of the Company have been in place and function effectively. The internal controls and accounting systems are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Company are identified and monitored, material transactions are executed in accordance with management's authorization and the accounts are reliable for publication.

## INVESTOR RELATIONS

The Company continues to pursue a proactive policy of promoting corporate transparency and communications with potential investors and investment community through its mandatory interim and final reports. The Senior Management responsible for investors relation holds meetings with press reporters and potential strategic investors to keep them abreast of the Company's development.

## COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communications with all shareholders so that they can exercise their rights as shareholders in an informed basis. Besides regular distribution of financial reports, the Company has a corporate website to foster effective communications with the shareholders. It is maintained to disseminate Company's announcements and presentations, shareholders' information and other relevant financial and non-financial information on a timely basis.

Another dialogue with shareholders is the Company's general meetings which provide a useful forum for shareholders to exchange their views with the Board.

## EXECUTIVE DIRECTORS

**Mr. LAW Kar Po**, Chairman, aged 62, has over 30 years of experience in hotel investment, property investments, manufacturing and retailing businesses. Mr. Law is responsible for formulating the strategies of the Group and he joined the Group in 2004.

Mr. Law is a director of Central Bingo Group Limited, China Infrastructure Limited, Fast Action Developments Limited, Honesty Services Limited, Honesty Treasure Limited, Pan-China (Shenyang) Real Estate Development Limited, Prospect Sync Holdings Limited, Star Palace Enterprises Limited, Ampleline Holdings Limited and Patient Holdings Limited, all of which are subsidiaries of the Company. Mr. Law is the father of Ms. Law Wing Yee, Wendy. Mr. Law is the managing director of Lobo Investments Limited.

**Mr. YANG Tian Ju**, Vice Chairman, aged 49, is responsible for formulating the strategies of the Group and he joined the Group in January 2010. Mr. Yang is the president of Pan-China Construction Group Corporation Limited ("Pan-China Group"). Mr. Yang graduated from the school of civil engineering of the Harbin Institute of Technology which he undertook undergraduate course in civil engineering. He is a senior engineer and a first-class certified constructor.

**Ms. SHI Feng Ling**, Chief Executive Officer, aged 46, is responsible for overall property development and management of the Group and she joined the Group in 2009. Ms. Shi graduated from Chongqing University in the People's Republic of China (the "PRC") which she undertook undergraduate course in Computer Engineering. She is a senior engineer and a first-class certified constructor. Ms. Shi is the president of Beijing Pan-China Sports Co. Limited and the executive vice president of Pan-China Group.

Ms. Shi is a director of China Infrastructure Limited, Pan-China (Shenyang) Real Estate Development Limited and Patient Holdings Limited, all of which are subsidiaries of the Company.

**Mr. MAN Wai Ping**, aged 40, is responsible for identifying investment projects of the Group and he joined the Group in 2009. Mr. Man holds a Diploma of Civil Engineering of Jiamusi Institute of Architecture and Engineering and he is an engineer. Mr. Man has over 10 years of experience in engineering and real estate development. He had been the designer of a subsidiary of Pan-China Group.

**Ms. LAW Wing Yee, Wendy**, aged 32, is responsible for overall business development and joined the Group in 2004. Ms. Law was admitted as a solicitor of the High Court of Hong Kong in 2004. She holds a Bachelor of Laws degree from the University of London, United Kingdom and a Postgraduate Certificate in Laws from the University of Hong Kong. She is studying the EMBA programme of Tsinghua University, Beijing and INSEAD. She is a committee member of the Hunan Provincial Committee of the Chinese People's Political Consultative Conference and The Chamber of Hong Kong Listed Companies.

Ms. Law is a director of Honesty Services Limited, Honesty Treasure Limited and Prospect Sync Holdings Limited, all of which are subsidiaries of the Company. She is a daughter of Mr. Law Kar Po.

**Ms. LEE Siu Yuk, Eliza**, aged 50, has over 20 years of experience in business operation, investment, marketing and project management. Ms. Lee holds a Master degree of Business Administration from Murdoch University, Australia. Ms. Lee is responsible for the implementation of corporate policy, business development plans, administration, the management of daily operation, marketing functions and general affairs of the Group. She joined the Group in 2004.

Ms. Lee is a director of Central Bingo Group Limited, China Infrastructure Limited, Fast Action Developments Limited, Honesty Services Limited, Honesty Treasure Limited, Pan-China (Shenyang) Real Estate Development Limited, Shenyang Pan-China Commercial Property Management Limited, Prospect Sync Holdings Limited, Star Palace Enterprises Limited, Ampleline Holdings Limited and Patient Holdings Limited, all of which are subsidiaries of the Company.

**Mr. CHIANG Kin Tong**, aged 27, is responsible for the marketing of the property development of the Group and he joined the Group in 2007. Mr. Chiang is a director of Trust Benevolent Real Investment Limited, Jun Xuan International Real Estate Company Limited and Citiport Development (Macau) Limited. He is a vice chairman of Inspirational Youth Association and vice president of Macao ASEAN International Chamber of Commerce.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. KWOK Hong Yee, Jesse**, aged 58, is both an independent solicitor and notary in Messrs. Jesse H. Y. Kwok & Co. with substantial previous working experiences acting as solicitors of the Supreme Courts in Hong Kong, the United Kingdom and Singapore. He obtained his Bachelor of Laws (LLB) and Master of Laws (LLM) in Civil Laws from the Peking University in the PRC. Mr. Kwok was appointed as a Permanent Magistrate for the period from 19 December 1994 to 31 December 1994 and a Temporary Adjudicator of the Small Claims Tribunal for the period from 1 May 1998 to 3 July 1998. Mr. Kwok is a member of the Law Society of Hong Kong and the Chartered Institute of Arbitrators. He was admitted as a solicitor of the Supreme Court of London and Singapore in 1985 and 1992 respectively. He is also a council member of the Society of Notaries. Mr. Kwok joined the Group in 2005.

**Mr. ZHANG Yong**, aged 40, is the chairman of the Global Alliance for Chinese Enterprises Limited. Mr. Zhang joined the Group in 2009.

**Mr. KEUNG Kwok Hung**, aged 38, obtained his bachelor's degree with honours in accountancy from the Hong Kong Polytechnic University. Mr. Keung had worked at leading international accounting firms and held various financial and executive positions in companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Keung was the financial controller and company secretary of China Precious Metal Resources Holdings Co., Ltd., a company listed on the main board of the Stock Exchange, during the period from March 2004 to November 2006. He was an executive director of Emcom International Limited, a company listed on the GEM board of the Stock Exchange, during the period from July 2009 to July 2010. Currently, he is the chief financial officer of Ming Fai International Holdings Limited, a company listed on the main board of the Stock Exchange. Mr. Keung has over 16 years of financial management and accounting experience and he is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Keung joined the Group in August 2010.

## SENIOR MANAGEMENT

### Group Affairs

**Mr. LAW Chun Choi**, aged 50, is the Financial Controller of the Group and the Qualified Accountant and the Company Secretary of the Company. He is a rich-experienced accountant. Mr. Law has extensive experience in diversified business in Asia-Pacific. Mr. Law graduated from The Hong Kong Polytechnic University with a Postgraduate Diploma in Corporate Administration and Professional Diploma in Accountancy. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. Mr. Law joined the Group in 2005.

### Properties Development and Investment

**Mr. SHAN Jin Song**, aged 34, graduated from Jilin University in 2002. He is now the general manager of Pan-China (Shenyang) Real Estate Development Limited and a director of Shenyang Pan-China Property Services Limited. He is a senior economist and a human resources manager. Mr. Shan has 13 years of relevant working experiences and he has been the general manager of Investment and Operation Department of Pan-China Group when he joined Pan-China Group in 2008. He had been the chief operation officer and human resources director of Antaeus Group.

**Mr. ZHANG Yin Nan**, aged 40, graduated from Shenyang Jian Zhu University in 1994. He is now the deputy general manager of Pan-China (Shenyang) Real Estate Development Limited and a director of Shenyang Pan-China Property Services Limited. He is a senior engineer in industrial and residential construction and a second-class registered construction engineer. Mr. Zhang has 18 years of relevant working experience and joined Pan-China Group in 2003. He had been the vice general manager of Pan-China Engineering (Shenyang) Company Limited.

**Mr. QIAO Ying Lin**, aged 45, graduated from Shijiazhuang Railway Institute in 1990. He is now the vice general manager of Pan-China (Shenyang) Real Estate Development Limited. He is an engineer in industrial and residential construction and a second-class registered construction engineer. Mr. Qiao has over 20 years of relevant working experience and joined Pan-China Group in 2009. He had been the project manager of 黑龍江省建築第一公司第八分公司 (Heilongjiang Province Construction No. 1 Company (Eighth Branch Company)*) and the vice general manager of 天洋置秦皇島四季房地產開發有限公司(Skyocean Zhi Qin Huang Dao Si Ji Real Estate Development Company Limited*).

**Mr. WANG Qi**, aged 45, graduated from Beijing Normal University in 1988. He is now the vice general manager of Pan-China (Shenyang) Real Estate Development Limited. He is a professional committee member of 中國商業聯合會購物中心專業委員會 (Shopping Centre Expert Committee of China General Chamber of Commerce*) and the secretary-general of 精品商家俱樂部 (Commercial Boutique Club*). Mr. Wang has over 20 years of experience in commercial property development, sales and operation and he joined Pan-China Group in 2009. He had been the chief operation officer of SCITECH Group and the general manager (commercial operation) of 中弘房地產開發公司 (Zhonghong Real Estate Development Limited*).

**Mr. WANG Xue Shan**, aged 34, graduated from Liaoning Vocational College of Business in 2001. He is now the sales controller of Pan-China (Shenyang) Real Estate Development Limited. He is an assistant marketing manager certified by the Marketing Professional Committee of China Business Manager Association. Mr. Wang has 11 years of relevant working experience and joined Pan-China Group in 2009. He had been the sales controller in 瀋陽廣信房地產開發有限公司 (Shenyang Guang Xin Real Estate Development Company Limited*) and the general manager of 瀋陽匯龍源置業諮詢有限公司 (Shenyang Hui Long Yuan Properties Consultancy Company Limited*).

**Mr. LIU Lie Long**, aged 40, obtained a bachelor degree in Finance from Zhongnan University of Economics and Law in 1993. He is now the financial controller of Pan-China (Shenyang) Real Estate Development Limited and Shenyang Pan-China Commercial Property Management Limited. He is an accountant certified by the Ministry of Finance in the PRC. Mr. Liu has 18 years of relevant working experience and joined Pan-China Group in 2010. He had been the assistant finance manager of 中國一汽貿易公司武漢聯合公司 (China FAW Trading Company, Wuhan Branch Alliance Company*), the financial manager of 武漢市東方舟置業有限公司 (Wuhan Shi Dong Fang Zhou Zhi Ye Company Limited*) and the financial manager of northeast region of Shenzhen Heungkong Holding Co., Ltd..

* The English translation of the Chinese name(s), where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).

The Directors submit herewith their annual report together with the audited consolidated financial statements for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

The Company is primarily an investment holding company and its investment portfolio includes (i) real estate investments; and (ii) property development.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of turnover attributable to the Group's five largest customers were less than 30% of the total turnover of the Group.

During the year, the aggregate amount of the purchases attributable to the Group's five largest suppliers were approximately 71% and the purchases from the largest supplier included therein accounted for approximately 28%.

Save otherwise disclosed, at no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 143 of this annual report.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement and statement of comprehensive income on pages 37 to 39 of this annual report.

The state of the Group's and the Company's affairs at 31 December 2010 are set out in the consolidated statement of financial position and statement of financial position on pages 40 to 42 of this annual report.

The Board of Directors does not recommend the payment of a dividend for the year ended 31 December 2010.

## PROPERTY, PLANT AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

## SHARE CAPITAL

Movements in share capital of the Group and the Company during the year are set out in Note 28 to the consolidated financial statements.

## RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 28 to the consolidated financial statements.

## PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2010.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 17 to the consolidated financial statements.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank borrowings at 31 December 2010 are set out in Note 24 to the consolidated financial statements.

## RETIREMENT SCHEMES

Details of the retirement benefits scheme of the Group are set out in Note 27 to the consolidated financial statements.

## CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance and has complied throughout the year with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Further information on the Company's corporate governance practices is set out on pages 11 to 20 of this annual report.

## DIRECTORS

The directors who held office during the year and at the date of this report are:

*Executive Directors:*

| | |
|---|---|
| Mr. Law Kar Po, *Chairman* | |
| Mr. Yang Tian Ju, *Vice Chairman* | (appointed on 8 January 2010) |
| Ms. Shi Feng Ling, *Chief Executive Officer* | |
| Mr. Man Wai Ping | |
| Mr. Chiang Kin Tong | |
| Ms. Law Wing Yee, Wendy | |
| Ms. Lee Siu Yuk, Eliza | |
| Mr. Wang Biao | (resigned on 8 January 2010) |

*Independent Non-executive Directors:*

| | |
|---|---|
| Mr. Kwok Hong Yee, Jesse | |
| Mr. Zhang Yong | |
| Mr. Keung Kwok Hung | (appointed on 26 August 2010) |
| Mr. Lau Wai Ming | (resigned on 1 June 2010) |
| Mr. Li Kam Fai, Dominic | (resigned on 1 June 2010) |

In accordance with the provisions of the Company's Articles of Association, Mr. Law Kar Po, Mr. Chiang Kin Tong and Mr. Kwok Hong Yee, Jesse shall retire from the Board at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Mr. Keung Kwok Hung was appointed as Director of the Company during the the period from 26 August 2010 (after the date of the latest annual general meeting of the Company held on 3 June 2010) to the date of this report. He will hold office until the forthcoming annual general meeting of the Company and will be eligible for re-election in accordance with the Articles of Association of the Company.

The term of office of each non-executive Director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors had any existing or propose service contract with the Company or any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

At 31 December 2010, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), to be entered in the register referred to therein; or (b) were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### (A) Long Position in the Ordinary Shares of HK$0.05 each ("Shares") of the Company

| | Number of Shares held | | | % to the issued share capital of the Company |
|---|---|---|---|---|
| Name of Director | Personal Interests | Corporate Interests | Total | |
| Mr. Law Kar Po | 709,116,000 | – | 709,116,000 | 17.62 |
| Ms. Shi Feng Ling | 170,000,000 | 1,019,290,512 (Note) | 1,189,290,512 | 29.56 |

Note: These Shares were held by Amazing Glory Investments Limited, a company which was wholly-owned by Ms. Shi Feng Ling. Hence, she was deemed to have a beneficial interest in all these Shares.

### (B) Long Position in the Underlying Shares

*(i) Long position in the unlisted 2.5% fixed interest convertible redeemable notes ("2011 Convertible Notes") of the Company*

| Name of Director | Capacity | Amount of 2011 Convertible Notes HK$ | Number of underlying Shares | % to the issued share capital of the Company |
|---|---|---|---|---|
| Mr. Chiang Kin Tong | Beneficial owner | 23,709,703 | 160,200,696 | 3.98 |

Holders of 2011 Convertible Notes are entitled to elect to convert 2011 Convertible Notes into Shares at the conversion price of HK$0.148 per Share (subject to adjustment) until 27 April 2011.

*(ii) Long position in the unlisted 2.5% fixed interest convertible redeemable notes ("2012 Convertible Notes") of the Company*

| Name of Director | Capacity | Amount of 2012 Convertible Notes HK$ | Number of underlying Shares | % to the issued share capital of the Company |
|---|---|---|---|---|
| Mr. Law Kar Po | Beneficial owner | 65,000,000 | 216,666,666 | 5.38 |

Holders of 2012 Convertible Notes are entitled to elect to convert 2012 Convertible Notes into Shares at the conversion price of HK$0.30 per Share (subject to adjustment) until 23 August 2012.

Save as disclosed above, at 31 December 2010, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associate corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEME

The Company adopted a share option scheme on 11 July 2008 (the "Share Option Scheme"). The purposes of the Share Option Scheme are to enable the Group and its Invested Entities (any entity in which any member of the Group holds an equity interest) to recruit and retain high calibre Eligible Persons and attract human resources that are valuable to the Group or Invested Entities, to recognise the contributions of the Eligible Persons to the growth of the Group or Invested Entities by rewarding them with opportunities to obtain ownership interest in the Company and to motivate and give incentives to these Eligible Persons to continue to contribute to the long term success and prosperity of the Group or Invested Entities. Pursuant to the Share Option Scheme, the Board may invite any Eligible Person including any director and employee of the Company to take up options to subscribe for shares of the Company. The Share Option Scheme shall be valid and effective for a period of ten years. No share options were outstanding nor granted during the year ended 31 December 2010.

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2010, so far as is known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

### Long position in the Ordinary Shares

| Name of shareholder | Capacity | Number of Shares | % to the issued share capital of the Company |
|---|---|---|---|
| Amazing Glory Investments Limited | Beneficial owner | 1,019,290,512 | 25.33 |

Note: Amazing Glory Investments Limited is wholly-owned by Ms. Shi Feng Ling, a Director of the Company.

Save as disclosed above, at 31 December 2010, no person (other than Directors or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and Senior Management of the Group are set out on pages 21 to 25 of this annual report.

## DIRECTORS' INTEREST IN CONTRACTS

Except for the transactions as disclosed in Notes 11 and 32 to the consolidated financial statements, no other contracts of significance to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") presently comprises three independent non-executive Directors. The Audit Committee has reviewed with the management and the Company's external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting process including the review of the consolidated financial statements for the year ended 31 December 2010.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to issue of this report, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

## AUDITORS

The consolidated financial statements were audited by HLB Hodgson Impey Cheng. A resolution for their re-appointment as the Company's auditors for the ensuring year is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board of Directors

**Law Kar Po**
*Chairman*

Hong Kong, 11 February 2011

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CHINA INFRASTRUCTURE INVESTMENT LIMITED**

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

We have audited the consolidated financial statements of China Infrastructure Investment Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 142, which comprise the consolidated and company statement of financial position at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**HLB Hodgson Impey Cheng**
Chartered Accountants
Certified Public Accountants

Hong Kong, 11 February 2011

# Consolidated Income Statement

For the year ended 31 December 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000<br>(Re-presented) |
|---|---|---|---|
| **Continuing operations** | | | |
| Turnover | 4 & 12 | **526,440** | 20,918 |
| Direct costs | | **(453,009)** | (17,336) |
| | | **73,431** | 3,582 |
| Other revenue and net income | 5 | **24,601** | 8,731 |
| Gain arising on change in fair value of investment properties | | **38,677** | 18,000 |
| Loss arising on change in fair value of financial asset at fair value through profit or loss | | **(8,800)** | – |
| Gain on early redemption on convertible notes | | **–** | 3,127 |
| Selling and distribution costs | | **(15,462)** | (10,146) |
| General and administrative expenses | | **(41,280)** | (31,968) |
| **Profit/(loss) from operations** | | **71,167** | (8,674) |
| Finance costs | 6(a) | **(28,707)** | (11,692) |
| **Profit/(loss) before taxation** | 6 | **42,460** | (20,366) |
| Income tax | 9 | **(21,498)** | (3,027) |
| **Profit/(loss) for the year from continuing operations** | 10 | **20,962** | (23,393) |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 11 | **(5)** | (119,322) |
| **Profit/(loss) for the year** | | **20,957** | (142,715) |

| | Note | 2010 HK$'000 | 2009 HK$'000 (Re-presented) |
|---|---|---|---|
| **Attributable to:** | | | |
| – Owners of the Company | | **12,149** | (135,859) |
| – Non-controlling interests | | **8,808** | (6,856) |
| **Profit/(loss) for the year** | | **20,957** | (142,715) |
| **Earnings/(loss) per share (HK cents per share)** | 13 | | |
| **From continuing and discontinued operations** | | | |
| Basic | | **0.30 cents** | (3.39) cents |
| Diluted | | **0.30 cents** | (3.39) cents |
| **From continuing operations** | | | |
| Basic | | **0.30 cents** | (0.41) cents |
| Diluted | | **0.30 cents** | (0.41) cents |

The notes on pages 46 to 142 form an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Profit/(loss) for the year** | **20,957** | (142,715) |
| **Other comprehensive income:** | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | **25,309** | (1,072) |
| **Total comprehensive income for the year** | **46,266** | (143,787) |
| **Attributable to:** | | |
| – Owners of the Company | **29,866** | (136,609) |
| – Non-controlling interests | **16,400** | (7,178) |
| **Total comprehensive income for the year** | **46,266** | (143,787) |

# Consolidated Statement of Financial Position

At 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment properties | 14 | **969,977** | 794,995 |
| Property, plant and equipment | 15 | **3,276** | 2,871 |
| Properties under development | 16 | **30,128** | 30,079 |
| | | **1,003,381** | 827,945 |
| **CURRENT ASSETS** | | | |
| Stock of properties | 18 | **397,788** | 719,764 |
| Trade and other receivables | 19 | **269,786** | 181,523 |
| Financial asset at fair value through profit or loss | 20 | **6,200** | – |
| Cash and bank balances | 21 | **362,028** | 250,612 |
| | | **1,035,802** | 1,151,899 |
| Assets classified as held for sale | 22 | **–** | 478,000 |
| | | **1,035,802** | 1,629,899 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 23 | **(480,716)** | (716,934) |
| Interest-bearing borrowings, secured | 24 | **–** | (317,397) |
| Convertible notes | 25 | **(36,556)** | – |
| Tax payables | | **(9,795)** | – |
| | | **(527,067)** | (1,034,331) |
| **NET CURRENT ASSETS** | | **508,735** | 595,568 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,512,116** | 1,423,513 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing borrowings, secured | 24 | **(100,047)** | (32,661) |
| Convertible notes | 25 | **(61,441)** | (94,147) |
| Deferred tax liabilities | 26 | **(86,368)** | (78,711) |
| | | **(247,856)** | (205,519) |
| **NET ASSETS** | | **1,264,260** | 1,217,994 |

# Consolidated Statement of Financial Position

At 31 December 2010

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28(b) | **201,186** | 201,186 |
| Reserves | | **803,311** | 773,445 |
| **Total equity attributable to owners of the Company** | | **1,004,497** | 974,631 |
| **Non-controlling interests** | | **259,763** | 243,363 |
| **TOTAL EQUITY** | | **1,264,260** | 1,217,994 |

Approved and authorised for issue by the board of directors on 11 February 2011.

**Law Kar Po**
*Director*

**Lee Siu Yuk, Eliza**
*Director*

The notes on pages 46 to 142 form an integral part of these consolidated financial statements.

# Statement of Financial Position

At 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSET** | | | |
| Interests in subsidiaries | 17 | **573,804** | 498,947 |
| **CURRENT ASSETS** | | | |
| Trade and other receivables | 19 | **151,954** | 162,489 |
| Financial asset at fair value through profit or loss | 20 | **6,200** | – |
| Cash and bank balances | 21 | **325,404** | 52,742 |
| | | **483,558** | 215,231 |
| Assets classified as held for sale | 22 | **–** | 346,674 |
| | | **483,558** | 561,905 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 23 | **(3,060)** | (55,060) |
| Convertible notes | 25 | **(36,556)** | – |
| | | **(39,616)** | (55,060) |
| **NET CURRENT ASSETS** | | **443,942** | 506,845 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,017,746** | 1,005,792 |
| **NON-CURRENT LIABILITY** | | | |
| Convertible notes | 25 | **(61,441)** | (94,147) |
| **NET ASSETS** | | **956,305** | 911,645 |
| **CAPITAL AND RESERVES** | 28 | | |
| Share capital | | **201,186** | 201,186 |
| Reserves | | **755,119** | 710,459 |
| **TOTAL EQUITY** | | **956,305** | 911,645 |

Approved and authorised for issue by the board of directors on 11 February 2011.

| | |
|---|---|
| **Law Kar Po** | **Lee Siu Yuk, Eliza** |
| *Director* | *Director* |

The notes on pages 46 to 142 form an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Capital redemption reserve (note) HK$'000 | Convertible notes equity reserve HK$'000 | Exchange reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2009 | 199,646 | 722,077 | 69 | 35,703 | 14,266 | 148,475 | 1,120,236 | 180,739 | 1,300,975 |
| Shares issued at a premium on exercise of warrants | 1 | 3 | – | – | – | – | 4 | – | 4 |
| Shares issued at a premium on conversion of convertible notes | 1,539 | 3,016 | – | (856) | – | – | 3,699 | – | 3,699 |
| Capital injections to a subsidiary by non-controlling interests | – | – | – | – | – | – | – | 76,813 | 76,813 |
| Disposal of a subsidiary | – | – | – | – | – | – | – | (7,011) | (7,011) |
| Release from early redemption on convertible notes | – | – | – | (16,624) | – | 3,925 | (12,699) | – | (12,699) |
| Exchange differences on translation of financial statements of overseas subsidiaries | – | – | – | – | (750) | – | (750) | (322) | (1,072) |
| Loss for the year | – | – | – | – | – | (135,859) | (135,859) | (6,856) | (142,715) |
| At 31 December 2009 and 1 January 2010 | 201,186 | 725,096 | 69 | 18,223 | 13,516 | 16,541 | 974,631 | 243,363 | 1,217,994 |
| Exchange differences on translation of financial statements of overseas subsidiaries | - | - | - | - | 17,717 | - | 17,717 | 7,592 | 25,309 |
| Profit for the year | - | - | - | - | - | 12,149 | 12,149 | 8,808 | 20,957 |
| **At 31 December 2010** | **201,186** | **725,096** | **69** | **18,223** | **31,233** | **28,690** | **1,004,497** | **259,763** | **1,264,260** |

Note: Capital redemption reserve represents the nominal value of shares repurchased out of distributable profit.

The notes on pages 46 to 142 form an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit/(loss) before taxation from continuing operations | | **42,460** | (20,366) |
| Loss before taxation from discontinued operations | 11 | **(5)** | (136,466) |
| **Profit/(loss) before taxation** | | **42,455** | (156,832) |
| Adjustments for: | | | |
| Depreciation | 15 | **2,776** | 2,841 |
| Loss on re-measurement to fair value less costs to sell | 22(a) | **–** | 50,298 |
| Provision for bad and doubtful debt | 6(b) | **–** | 2,383 |
| Gain on early redemption on convertible notes | | **–** | (3,127) |
| Loss arising on change in fair value of financial asset at fair value through profit or loss | 20/30(e) | **8,800** | – |
| Interest income | 5 | **(2,127)** | (5,204) |
| Finance costs | | **28,707** | 12,780 |
| Share of results of associates | | **–** | 65,144 |
| Gain arising on change in fair value of investment properties | 14 | **(38,677)** | (18,000) |
| Gain on disposal of assets classified as held for sale | 5 | **(21,520)** | – |
| Waiver of loans from non-controlling interests | 5 | **–** | (2,612) |
| Operating profit/(loss) before changes in working capital | | **20,414** | (52,329) |
| Payment for the development costs of investment properties | | **(136,305)** | (269,768) |
| (Increase)/decrease in trade and other receivables | | **(88,263)** | 92,877 |
| Decrease in stock of properties | | **321,976** | 40,276 |
| (Decrease)/increase in trade and other payables | | **(95,078)** | 223,332 |
| Cash generated from operations | | **22,744** | 34,388 |
| Tax paid | | **(1,732)** | – |
| **Net cash generated from operating activities** | | **21,012** | 34,388 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Interest received | 5 | **2,127** | 5,204 |
| Dividends received from associates | | **11,650** | 27,185 |
| Decrease/(increase) in pledged deposits | | **143,636** | (48,669) |
| Net cash outflow upon disposal of subsidiaries | 29 | **–** | (118,943) |
| Payment for the purchase of property, plant and equipment | 15 | **(3,082)** | (596) |
| Payment for development costs of properties under development | 16 | **(218)** | (232) |
| Payment for acquisition of the option | 20 | **(15,000)** | – |
| Capital injections to a subsidiary by non-controlling interests | | **–** | 76,813 |
| Proceeds from sale of property, plant and equipment | | **–** | 2 |
| Proceeds from disposal of assets classified as held for sale | | **434,300** | – |
| **Net cash generated from/(used in) investing activities** | | **573,413** | (59,236) |
| **FINANCING ACTIVITIES** | | | |
| Repayment of bank loans | | **(450,105)** | (184,021) |
| Net proceeds from the issue of new shares on exercise of warrants | | **–** | 4 |
| Proceeds from new bank loans | | **200,094** | 317,322 |
| (Decrease)/increase in amounts due to non-controlling interests | | **(90,540)** | 62,379 |
| Decrease in amounts due to related companies | | **–** | (273) |
| Repayment from other loans | | **–** | (77,512) |
| Finance costs | | **(24,857)** | (25,598) |
| **Net cash (used in)/generated from financing activities** | | **(365,408)** | 92,301 |
| Net increase in cash and cash equivalents | | **229,017** | 67,453 |
| Effect of foreign exchange rate changes | | **26,035** | 1,855 |
| Cash and cash equivalents at beginning of year | 21 | **105,408** | 36,100 |
| **Cash and cash equivalents at end of year** | | **360,460** | 105,408 |
| **Analysis of the balances of cash and cash equivalents** | | | |
| Cash and cash equivalents at end of year | 21 | **360,460** | 105,408 |

The notes on pages 46 to 142 form an integral part of these consolidated financial statements.

## 1. GENERAL INFORMATION

The Company was incorporated and registered in the Cayman Islands on 16 June 1992 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 2 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office in the Cayman Islands and head office in Hong Kong are The Harbour Trust Co. Ltd., Windward 1, Regatta Office Park, West Bay Road, Grand Cayman, Cayman Islands and Room 2007, 20th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong respectively.

The Company (with its subsidiaries is collectively referred to as the "Group") is an investment holding company. Its subsidiaries are principally engaged in property development and investment.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs. Note 3 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the financial statements of the Company and its subsidiaries.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the financial instruments and certain properties are measured at fair value as explained in the accounting polices set out below.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future accounting periods.

Judgements made by management in the application of HKFRSs 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 note 35.

Certain comparative figures of prior years have been re-presented to conform with the current year's presentation.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the shareholders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between non-controlling interests and the owners of the Company.

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

Loans from shareholders of non-controlling interests and other contractual obligations towards these shareholders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Associate

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of post acquisition, post-tax results of an associate for the year, including any impairment loss on goodwill relating to the investment in an associate recognised for the year.

When the Group's share of losses exceeds its interest in an associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in an associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance forms part of the Group's net investment in an associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in an associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in consolidated income statement.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Investment properties

#### *(i) Completed investment properties*

Completed investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Completed investment properties classified as investment properties are stated in the consolidated statement of financial position at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it is held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

#### *(ii) Investment properties under development*

Investment properties under development include properties that are being constructed or developed for future use as rental purpose are stated at fair value and classified as investment properties. Where fair value of investment property under development was not reliably measurable, the property is measured at cost until the earlier of the date of construction is completed and the date at which fair value becomes reliably measurable.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses.

Gain or loss arising from the retirement or disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item and is recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The principal annual rates of depreciation are as follows:

| | |
|---|---|
| Building | 2 – 33⅓% or over the lease term, if shorter |
| Leasehold improvements | Over the lease term |
| Office equipment | 10 – 20% |
| Motor vehicles | 10 – 20% |
| Furniture and fixtures | 10 – 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Leased assets (Continued)

#### *(i) Classification of assets leased to the Group*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the cost of which cannot be measured separately from the cost of a building situated thereon at the inception of the lease, which is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

#### *(ii) Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to consolidated income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term, except where the property is classified as an investment property, as a property under development for rental purposes, as a property under development for sale.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Impairment of non-financial assets

#### *(i) Impairment of non-financial assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– properties under development; and

– investments in subsidiaries and associates (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)).

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Impairment of non-financial assets (Continued)

#### *(i) Impairment of non-financial assets (Continued)*

– Recognition of impairment losses

An impairment loss is recognised in consolidated income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

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

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

#### *(ii) Interim financial reporting and impairment*

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34 Interim financial reporting in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Stock of properties

*(i) Properties under development for sale*

Properties under development for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing market conditions.

Development cost of property comprises construction costs, depreciation of machinery and equipment, amortisation of land use rights and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

*(ii) Completed properties held for sale*

Completed properties held for sale remaining unsold at the year end are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when an entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

*Financial assets*

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of such category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Financial instruments (Continued)

*Financial assets (Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including cash and bank balances and trade and other receivables but not the prepayment) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Financial assets at "fair value through profit or loss" (*FVTPL*)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

– it has been acquired principally for the purpose of selling it in the near future; or

– on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

– such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Financial instruments (Continued)

*Financial assets (Continued)*

Financial assets at “fair value through profit or loss” (*FVTPL*) (Continued)

– the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

– it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘other gains and losses’ line item in the consolidated income statement. Fair value is determined in the manner described in note 30.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Financial instruments (Continued)

*Financial assets (Continued)*

Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 365 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Financial instruments (Continued)

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by an entity are as other financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of a company after deducting all of its liabilities. Equity instruments issued by a company are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities (including interest-bearing borrowings, convertible notes and trade and other payables but not the advanced proceeds received from customers) are subsequently measured at amortised cost, using the effective interest rate method.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Financial instruments (Continued)

*Convertible notes*

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

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

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

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

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Financial instruments (Continued)

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in statement of comprehensive income.

For financial liabilities, they are removed from statement of financial position when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the statement of comprehensive income.

### (k) Government grants

Government grants that are receivable or received for the purpose of giving immediate financial support to the Group with no further related costs are recognised in consolidated income statement in the period in which they become receivable or received.

### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (m) Employee benefits

#### *(i) Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### *(ii) Termination benefits*

Termination benefits are recognised when, and only when the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences, or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future or, in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously, or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity, or

  – different taxable entities which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (o) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (p) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Group's activities. Revenue is shown, net of business tax and after eliminating sales with the Group companies. Revenue is recognised in consolidated income statement as follows:

*(i) Sales of properties*

Sales of properties are recognised upon the completion of sales contracts with customers; completion of construction of relevant properties; and registration of sales contracts with local authority is completed, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet as advanced proceeds received from customers and grouped under current liabilities.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Revenue recognition (Continued)

*(ii) Rental income from investment properties*

Rental income from investment properties is recognised in consolidated income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

*(iii) Properties management income*

Revenue associated with rendering of services for properties management fee.

*(iv) Interest income*

Interest income is recognised as it accrues using the effective interest method.

*(v) Dividends*

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

### (q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) Translation of foreign currencies (Continued)

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

### (r) Borrowing costs

Borrowing costs are expensed in consolidated 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated income statement which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

### (t) Assets classified as held for sale

A non-current asset or assets of disposal group classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (t) Assets classified as held for sale (Continued)

Immediately before classification as held for sale, the measurement of the non-current assets or assets of disposal group is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets or assets of disposal group (except for certain assets as explained below) are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses arising on initial classification as held for sale and on subsequent remeasurement while held for sale are recognised in consolidated income statement. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

### (u) Related parties

For the purposes of the consolidated 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;

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) Related parties (Continued)

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (v) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the directors of the Company.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these consolidated financial statements.

| | |
|---|---|
| HKFRS 1 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standards* |
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share – based Payment – Group Cash-settled Share-based Payment Transactions* |
| HKFRS 5 Amendments included in Improvements to HKFRSs issued in October 2008 | Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* |
| HKFRS 3 (Revised) | *Business Combinations* |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements* |
| HKAS 39 Amendment | Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* |
| HK-Int 4 Amendment | Amendment to HK-Int 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* |
| HK-Int 5 | *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* |
| HK(IFRIC)-Int 17 | *Distributions of Non-cash Assets to Owners* |
| Improvements to HKFRSs issued in 2009 | Amendments to a number of HKFRSs issued in May 2009 |

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these consolidated financial statements.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

| | |
|---|---|
| HKFRS 1 Amendment | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4] |
| HKFRS 9 | *Financial Instruments*[5] |
| HKAS 24 (as revised in 2009) | *Related Party Disclosures*[3] |
| HKAS 32 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1] |
| HK (IFRIC)-Int 14 Amendments | *Prepayments of a Minimum Funding Requirement*[3] |
| HK (IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments*[2] |

1 *Effective for annual periods beginning on or after 1 February 2010*

2 *Effective for annual periods beginning on or after 1 July 2010*

3 *Effective for annual periods beginning on or after 1 January 2011*

4 *Effective for annual periods beginning on or after 1 July 2011*

5 *Effective for annual periods beginning on or after 1 January 2013*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 4. TURNOVER

The Group is principally engaged in property development and investment.

Turnover includes revenue (net of business tax) of rental income from investment properties, sales of properties and properties management income, which are all classified into the segment of property development and investment. The Group has ceased all operations in Macau which represented separate major line of geographical area of operations in (i) property development and investment and (ii) investment holding. The amount of each significant category of revenue recognised in turnover during the years is analysed as follows:

**Continuing operations**

| | 2010<br>HK$'000 | 2009<br>HK$'000<br>(Re-presented) |
|---|---|---|
| Rental income from investment properties (Note) | 7,066 | 3,418 |
| Sales of properties | 517,516 | 17,500 |
| Properties management income | 1,858 | – |
| | 526,440 | 20,918 |

Note: Rental income from investment properties in 2009 represented the gross rentals from investment properties of approximately HK$3,540,000 less the business tax of approximately HK$122,000.

## 5. OTHER REVENUE AND NET INCOME

### Continuing operations

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **Other revenue:** | | |
| Interest income | 2,127 | 4,718 |
| Government grant (Note 1) | – | 1,361 |
| Gain on disposal of assets classified as held for sale (Note 2) | 21,520 | – |
| | 23,647 | 6,079 |
| **Other net income:** | | |
| Net exchange gain/(loss) | 335 | (10) |
| Waiver of loans from non-controlling interests | – | 2,612 |
| Others | 619 | 50 |
| | 954 | 2,652 |
| | 24,601 | 8,731 |

Note:

1. For the year ended 31 December 2009, government grant of HK$1,361,000 represented government subsidies for one of the Group's properties development and investment project in the People's Republic of China other than Hong Kong and Macau (the "PRC"), of which the entitlement was unconditional and under the discretion of the relevant authority.

2. The assets classified as held for sale represented the investment in associates and the investment properties located in Hong Kong.

### Discontinued operations

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **Other revenue:** | | |
| Interest income | – | 486 |

## 6. PROFIT/(LOSS) BEFORE TAXATION

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

### (a) Finance costs

**Continuing operations**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Interest on bank loans and other loans wholly repayable within five years | 22,321 | 24,698 |
| Interest on bank loans and other loans wholly repayable over five years | – | 900 |
| Effective interest expenses of convertible notes | 6,386 | 10,757 |
| Total borrowing costs | 28,707 | 36,355 |
| Less: borrowing costs capitalised into properties under development, investment properties and stock of properties (Note) | – | (24,663) |
| | 28,707 | 11,692 |

**Discontinued operations**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Interest on bank loans and other loans wholly repayable within five years | – | 1,088 |

Note: The borrowing costs have been capitalised at rates ranging from 6% – 8% per annum for the year ended 31 December 2009.

## 6. PROFIT/(LOSS) BEFORE TAXATION (Continued)

### (b) Other items

**Continuing operations**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Charging: | | |
| Staff costs (including directors' remuneration) | | |
| – salaries, wages and other benefits | **9,417** | 7,457 |
| – retirement benefits scheme contributions | **1,497** | 698 |
| Total staff costs | **10,914** | 8,155 |
| Auditors' remuneration | | |
| – audit services for current year | **1,326** | 1,094 |
| – other services | **1,867** | 2,439 |
| | **3,193** | 3,533 |
| Depreciation | **2,776** | 2,841 |
| Provision for bad and doubtful debt | **–** | 2,383 |
| Cost of stock of properties recognised as an expense | **431,423** | 17,230 |
| Operating lease charges for premises | **1,072** | 1,113 |
| Crediting: | | |
| Gross rental income from investment properties | **(7,407)** | (3,540) |
| Less: | | |
| Direct operating expenses from investment properties that generated rental income during the year | **341** | 122 |
| | **(7,066)** | (3,418) |

## 7. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

| For the year ended 31 December 2010 | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Contributions to retirement benefits scheme HK$'000 | Share-based payment expenses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Chiang Kin Tong | – | – | – | – | – |
| Law Kar Po | – | – | – | – | – |
| Law Wing Yee, Wendy | – | – | – | – | – |
| Lee Siu Yuk, Eliza | – | 1,920 | 12 | – | 1,932 |
| Man Wai Ping | – | 375 | 7 | – | 382 |
| Shi Feng Ling | – | – | – | – | – |
| Wang Biao (Resigned on 8 January 2010) | – | – | – | – | – |
| Yang Tian Ju (Appointed on 8 January 2010) | – | – | – | – | – |
| | – | 2,295 | 19 | – | 2,314 |
| **Independent non-executive directors** | | | | | |
| Keung Kwok Hung (Appointed on 26 August 2010) | 83 | – | – | – | 83 |
| Kwok Hong Yee, Jesse | 200 | – | – | – | 200 |
| Lau Wai Ming (Resigned on 1 June 2010) | 100 | – | – | – | 100 |
| Li Kam Fai, Dominic (Resigned on 1 June 2010) | 100 | – | – | – | 100 |
| Zhang Yong | 200 | – | – | – | 200 |
| | 683 | – | – | – | 683 |
| | 683 | 2,295 | 19 | – | 2,997 |

## 7. DIRECTORS' EMOLUMENTS (Continued)

| For the year ended 31 December 2009 | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Contributions to retirement benefits scheme HK$'000 | Share-based payment expenses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Chiang Kin Tong | – | – | – | – | – |
| Choy Wang Kong (Resigned on 1 June 2009) | – | – | – | – | – |
| Gao Feng (Resigned on 22 May 2009) | – | – | – | – | – |
| Hoi Man Pak (Resigned on 1 June 2009) | – | – | – | – | – |
| Law Kar Po | – | – | – | – | – |
| Law Wing Yee, Wendy | – | – | – | – | – |
| Lee Siu Yuk, Eliza | – | 1,695 | 12 | – | 1,707 |
| Man Wai Ping (Appointed on 1 June 2009) | – | – | – | – | – |
| Shi Feng Ling (Appointed on 1 June 2009) | – | – | – | – | – |
| Wang Biao (Appointed on 1 June 2009) | – | – | – | – | – |
| Yong Wing Tai, William (Resigned on 1 June 2009) | – | – | – | – | – |
| | – | 1,695 | 12 | – | 1,707 |
| **Independent non-executive directors** | | | | | |
| Kwok Hong Yee, Jesse | 200 | – | – | – | 200 |
| Lau Wai Ming | 200 | – | – | – | 200 |
| Li Kam Fai, Dominic | 200 | – | – | – | 200 |
| Zhang Yong (Appointed on 19 September 2009) | 67 | – | – | – | 67 |
| | 667 | – | – | – | 667 |
| | 667 | 1,695 | 12 | – | 2,374 |

## 7. DIRECTORS' EMOLUMENTS (Continued)

For the years ended 31 December 2010 and 2009, no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company waived or agreed to waive any remuneration for the years ended 31 December 2010 and 2009.

## 8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest paid emoluments, two (2009: one) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2009: four) individuals are as follows:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Salaries and other emoluments | **1,921** | 2,039 |
| Share-based payment expenses | **–** | – |
| Contributions to retirement benefits scheme | **34** | 43 |
| | **1,955** | 2,082 |

The emoluments of the three (2009: four) individuals with the highest emoluments are within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2010** | 2009 |
| HK$3,500,001 to HK$4,000,000 | **–** | – |
| HK$3,000,001 to HK$3,500,000 | **–** | – |
| HK$2,500,001 to HK$3,000,000 | **–** | – |
| HK$2,000,001 to HK$2,500,000 | **–** | – |
| HK$1,500,001 to HK$2,000,000 | **–** | – |
| HK$1,000,001 to HK$1,500,000 | **–** | – |
| Nil to HK$1,000,000 | **3** | 4 |
| | **3** | 4 |

For the years ended 31 December 2010 and 2009, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office.

## 9. INCOME TAX

### (a) Taxation in the consolidated income statement represents:

**Continuing operations**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Current tax** | | |
| PRC Enterprise Income Tax | **11,829** | – |
| **Deferred tax** | **9,669** | 3,027 |
| | **21,498** | 3,027 |

Hong Kong profits tax was not provided for in the consolidated financial statements as the Group has no estimated assessable profits arising in Hong Kong for the years ended 31 December 2010 and 2009.

The Group's PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2009: 25%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on prevailing legislation, interpretations and practice in respect thereof during the year.

## 9. INCOME TAX (Continued)

### (b) Reconciliation between tax expense and accounting profit/(loss) at applicable rates:

**Continuing operations**

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Profit/(loss) before taxation | **42,460** | (20,366) |
| Notional tax on profit/(loss) before taxation | **7,006** | (3,360) |
| Tax effect of non-deductible expenses | **3,510** | 3,340 |
| Tax effect of non-taxable income | **(3,886)** | (1) |
| Utilisation of tax losses previously not recognised | **(32)** | (900) |
| Tax effect of unused tax loss not recognised | **10,572** | 5,661 |
| Effect of different tax rates of the companies of the Group | **4,328** | (1,713) |
| Income tax | **21,498** | 3,027 |

**Discontinued operations**

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Loss before taxation | **(5)** | (136,466) |
| Notional tax on loss before taxation | **(1)** | (22,516) |
| Tax effect of unused tax loss not recognised | **1** | 22,516 |
| Income tax | **–** | – |

## 10. PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS

Profit/(loss) for the year from continuing operations is attributable to:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **Attributable to:** | | |
| – Owners of the Company | **12,154** | (16,537) |
| – Non-controlling interests | **8,808** | (6,856) |
| | **20,962** | (23,393) |

## 11. DISCONTINUED OPERATIONS

### Loss for the year from discontinued operations

An analysis of the combined result and cash flows of the discontinued operations of each year is as follows:

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Other revenue and net income | 5 | **–** | 486 |
| Loss on re-measurement to fair value less costs to sell | 22 | **–** | (50,298) |
| Expenses | | **(5)** | (20,422) |
| Loss from operations | | **(5)** | (70,234) |
| Finance costs | 6(a) | **–** | (1,088) |
| Share of result of an associate | | **–** | (65,144) |
| Loss before taxation | 6 | **(5)** | (136,466) |
| Income tax | | **–** | – |
| Loss after taxation | | **(5)** | (136,466) |
| Gain on disposal of a subsidiary | 29 | **–** | 17,144 |
| Loss for the year from discontinued operations | | **(5)** | (119,322) |

## 11. DISCONTINUED OPERATIONS (Continued)

### Cash flows from discontinued operations

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Net cash used in operating activities | – | (310,941) |
| Net cash used in financial activities | – | (82,227) |
| Net cash generated from investing activities | – | 543,107 |
| Net cash inflow | – | 149,939 |

An analysis of the result and cash flows of each discontinued operation of each year is detailed in (i) & (ii) as below.

### (i) Disposal of the operation in property development in Macau

On 25 September 2009, the vendors (including Fast Action Developments Limited ("Fast Action"), a subsidiary of the Company) entered into provisional agreement, with Cheong On Real Estate and Investment Limited ("Cheong On") and Jinlong Investment & Development Company Limited ("Jinlong") as the purchasers under which the vendors have conditionally agreed to dispose of and the purchasers have conditionally agreed to acquire (i) 100% of the issued quota of Continental Ocean Investment and Development Limited ("CIDCOL"), a subsidiary of Fast Action; and (ii) shareholders' loans of approximately HK$182.4 million due from CIDCOL to its shareholders for an aggregate consideration of HK$230 million (the "Disposal"). The material assets of CIDCOL were (i) a piece of land known as Lote TN6 with a size of approximately 4,661 square metres in Taipa, Macau; and (ii) the related pledged deposits of approximately HK$30 million as at 31 August 2009.

Each of Mr. Law Kar Po and Mr. Chiang Kin Tong is an executive Director of the Company and a substantial shareholder of CIDCOL. Mr. Hoi Man Pak, who is an ex-director of the Company, holds equity interest in Cheong On and Jinlong.

Details of the Disposal are set out in the Company's circular dated 6 October 2009.

The independent shareholders' approval on the Disposal was obtained and the completion took place on 29 October 2009.

## 11. DISCONTINUED OPERATIONS (Continued)

### (i) Disposal of the operation in property development in Macau (Continued)

An analysis of the result and cash flows of the discontinued operations of each year is as follows:

| | Note | 2009 HK$'000 |
|---|---|---|
| Other revenue and net income | | 486 |
| Expenses | | (17,481) |
| Loss from operations | | (16,995) |
| Finance costs | | (1,088) |
| Loss before taxation | | (18,083) |
| Income tax | | – |
| Loss after taxation | | (18,083) |
| Gain on disposal of a subsidiary | 29 | 17,144 |
| Loss for the year from discontinued operations | | (939) |

| | 2009 HK$'000 |
|---|---|
| **Cash flows from discontinued operations** | |
| Net cash generated from operating activities | 231,680 |
| Net cash used in financial activities | (82,227) |
| Net cash generated from investing activities | 486 |
| Net cash inflow | 149,939 |

## 11. DISCONTINUED OPERATIONS (Continued)

### (ii) Disposal of the operation in investment holdings in Macau

The Company announced that on 28 November 2009, an agreement was entered into between the Company as the vendor and U Wa Hotel Management Limited ("U Wa"), as the purchaser, in which Mr. Hoi Man Pak, an ex-director of the Company, has equity interest with regard to the disposal of (i) the Sale Share, being the entire interest of Pearl Oriental Macau Limited ("Pearl Oriental Macau"); and (ii) the Shareholder's Loans (being approximately HK$346.7 million) by the Company for an aggregate consideration of HK$400 million, which shall be satisfied in cash.

The principal assets of Pearl Oriental Macau is the MOP400,000 issued quota of Hotel Golden Dragon (Macau) Company Limited ("Golden Dragon"), representing 40% of the issued quota of Golden Dragon and an associate of the Group.

Details of the transaction are set out in the Company's announcement and circular dated 1 December 2009 and 11 January 2010 respectively.

The disposal was completed on 29 January 2010.

## 11. DISCONTINUED OPERATIONS (Continued)

### (ii) Disposal of the operation in investment holdings in Macau (Continued)

An analysis of the result and cash flows of the discontinued operations of each year is as follows:

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| Loss on re-measurement to fair value less costs to sell | 22 | – | (50,298) |
| Expenses | | (5) | (2,941) |
| Loss from operations | | (5) | (53,239) |
| Share of result of an associate | | – | (65,144) |
| Loss before taxation | | (5) | (118,383) |
| Income tax | | – | – |
| Loss for the year from discontinued operations | | (5) | (118,383) |

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Cash flows from discontinued operations** | | |
| Net cash used in operating activities | – | (542,621) |
| Net cash generated from financial activities | – | – |
| Net cash generated from investing activities | – | 542,621 |
| Net cash inflow | – | – |

## 12. SEGMENT INFORMATION

Segment revenue represents revenue generated from external customers. There were no inter-segment sales during the year (2009: HK$nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of segment profit/(loss). The segment profit/(loss) is measured consistently with the Group's profit/(loss) except that finance costs, central administration costs including directors' salaries under the heading of unallocated corporate expenses and other operating income are excluded from such measurement. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments other than corporate assets.

In a manner consistent with the way in which information is reported internally to chief operating decision maker for the purposes of resources allocation and performance assessment, the Group is currently organized into the following operating segments:

### Continuing operations

The property development and investment segment engages in (i) rental income from investment properties; (ii) sales of properties; and (iii) properties management income. The property development and investment segment is further evaluated on a geographical basis (Hong Kong and the PRC).

### Discontinued operations

(a) The investment holding segment engages in investment in associates on a geographical basis of Macau; and

(b) The property development and investment segment engages in (i) rental income from investment properties; and (ii) sales of properties on a geographical basis of Macau.

## 12. SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's revenue and results by operating segment for the years ended 31 December 2010 and 2009:

| | For the year ended 31 December 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operation | | |
| | Property development and investment | | Total continuing operations | Investment holding | Total discontinued operation | Total group |
| | Hong Kong HK$'000 | The PRC HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Segment revenue (from external customers) | 595 | 525,845 | 526,440 | – | – | 526,440 |
| Segment profit/(loss) | 9,555 | 73,041 | 82,596 | (5) | (5) | 82,591 |
| Other operating income | | | 13,345 | | – | 13,345 |
| Unallocated corporate expenses | | | (24,774) | | – | (24,774) |
| Profit/(loss) from operations | | | 71,167 | | (5) | 71,162 |
| Finance costs | | | (28,707) | | – | (28,707) |
| Profit/(loss) before taxation | | | 42,460 | | (5) | 42,455 |
| Income tax | – | (21,498) | (21,498) | – | – | (21,498) |
| Profit/(loss) for the year | | | 20,962 | | (5) | 20,957 |
| Other segment information | | | | | | |
| Additions to non-current assets | – | 161,856 | 161,856 | – | – | 161,856 |
| Depreciation | 151 | 2,625 | 2,776 | – | – | 2,776 |
| Segment assets | 9,426 | 1,544,866 | 1,554,292 | – | – | 1,554,292 |
| Unallocated assets | | | 484,891 | | – | 484,891 |
| | | | 2,039,183 | | – | 2,039,183 |

## 12. SEGMENT INFORMATION (Continued)

| | For the year ended 31 December 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operations | | | |
| | Property development and investment | | Total continuing operations | Property development and investment (Macau) | Investment holding | Total discontinued operations | Total group |
| | Hong Kong HK$'000 | The PRC HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Segment revenue (from external customers)** | 20,255 | 663 | 20,918 | – | – | – | 20,918 |
| Segment profit/(loss) | 20,352 | (20,943) | (591) | (16,995) | (53,239) | (70,234) | (70,825) |
| Other operating income | | | 8,640 | | | – | 8,640 |
| Unallocated corporate expenses | | | (16,723) | | | – | (16,723) |
| **Loss from operations** | | | (8,674) | | | (70,234) | (78,908) |
| Finance costs | | | (11,692) | | | (1,088) | (12,780) |
| Share of results of an associate | – | – | – | – | (65,144) | (65,144) | (65,144) |
| **Loss before taxation** | | | (20,366) | | | (136,466) | (156,832) |
| Income tax | (2,971) | (56) | (3,027) | – | – | – | (3,027) |
| Gain on disposal of a subsidiary | – | – | – | 17,144 | – | 17,144 | 17,144 |
| **Loss for the year** | | | (23,393) | | | (119,322) | (142,715) |
| **Other segment information** | | | | | | | |
| Additions to non-current assets | – | 270,596 | 270,596 | – | – | – | 270,596 |
| Depreciation | 213 | 2,628 | 2,841 | – | – | – | 2,841 |
| Segment assets | 78,000 | 1,775,929 | 1,853,929 | – | – | – | 1,853,929 |
| Interests in an associate | – | – | – | – | 400,000 | 400,000 | 400,000 |
| Unallocated assets | | | 203,915 | | | – | 203,915 |
| | | | 2,057,844 | | | 400,000 | 2,457,844 |

## 12. SEGMENT INFORMATION (Continued)

### Information about a major customer

For the year ended 31 December 2010, no revenue derived from sales made to a single external customers amounted to 10% or more of the Group's total revenue. For the year ended 31 December 2009, revenue of approximately HK$17,500,000 was derived from sales of completed properties held for sale under property development and investment segment.

## 13. EARNINGS/(LOSS) PER SHARE

### (a) From continuing and discontinued operations

The calculation of the basic and diluted earnings/(loss) per share is as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Profit/(loss)** | | |
| Profit/(loss) for the purpose of basic earnings/(loss) per share (profit/(loss) for the year attributable to owners of the Company) | **12,149** | (135,859) |
| After tax effect of effective interest on liability component of convertible notes (Note 1) | **–** | – |
| Profit/(loss) for the purpose of diluted earnings/(loss) per share | **12,149** | (135,859) |

## 13. EARNINGS/(LOSS) PER SHARE (Continued)

### (a) From continuing and discontinued operations (Continued)

**Number of shares**

| | Number of shares | |
|---|---|---|
| | 2010 | **2009** |
| Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share | **4,023,710,510** | 4,011,731,539 |
| Effect of deemed conversion of convertible notes into the Company's new ordinary shares (Note 2) | **–** | – |
| Weighted average number of ordinary share for the purpose of diluted earnings/(loss) per share | **4,023,710,510** | 4,011,731,539 |

Notes:

1. For the years ended 31 December 2010 and 2009, no after tax effect of effective interest on liability component of convertible notes was provided because the conversion of all outstanding convertible notes would have anti-dilutive effects.

2. For the years ended 31 December 2010 and 2009, the convertible notes had an anti-dilutive effect on the basic earnings/(loss) per share and was ignored in the calculation of diluted earnings/(loss) per share.

## 13. EARNINGS/(LOSS) PER SHARE (Continued)

### (b) From continuing operations

The calculation of the basic and diluted earnings/(loss) per share is as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Profit/(loss) for the year attributable to owners of the Company | **12,149** | (135,859) |
| Less: loss for the year from discontinued operations | **(5)** | (119,322) |
| Profit/(loss) for the purpose of basic earnings/(loss) per share from continuing operations | **12,154** | (16,537) |
| After tax effect of effective interest on liability component of convertible notes (Note 1) | **–** | – |
| Profit/(loss) for the purpose of diluted earnings/(loss) per share from continuing operations | **12,154** | (16,537) |

Note:

1. For the years ended 31 December 2010 and 2009, no after tax effect of effective interest on liability component of convertible notes was provided because the conversion of all outstanding convertible notes would have anti-dilutive effects.

   The denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share from continuing and discontinued operations.

### (c) From discontinued operations

Both basic and diluted loss per share for the discontinued operations are HK0.00 cents per share (2009: HK2.98 cents per share), based on the loss for the year from discontinued operations of HK$5,000 (2009: HK$119,322,000) and the denominators used are the same as those detailed above for both basic and diluted loss per share.

## 14. INVESTMENT PROPERTIES

**The Group**

| | Completed investment properties at fair value HK$'000 | Investment properties under development at cost HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2009 | 66,821 | – | 66,821 |
| Transfers from properties under development due to the adoption of Amendments to HKAS 40 | – | 519,090 | 519,090 |
| Additions | – | 269,768 | 269,768 |
| Gain arising on change in fair value | 18,000 | – | 18,000 |
| Transfers to assets classified as held for sale under HKFRS 5 | (78,000) | – | (78,000) |
| Exchange alignments | (16) | (668) | (684) |
| At 31 December 2009 and 1 January 2010 | 6,805 | 788,190 | 794,995 |
| Reclassified from investment properties under development to completed investment properties | 774,751 | (774,751) | – |
| Additions | – | 107,109 | 107,109 |
| Gain arising on change in fair value | 38,677 | – | 38,677 |
| Exchange alignments | 27,931 | 1,265 | 29,196 |
| **At 31 December 2010** | **848,164** | **121,813** | **969,977** |

(a) At 31 December 2010 and 2009, interests capitalised as costs of investment properties amounted to approximately HK$27,547,000.

## 14. INVESTMENT PROPERTIES (Continued)

(b) Breakdowns of investment properties:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Completed investment properties at fair value | **848,164** | 6,805 |
| Investment properties under development at cost | **121,813** | 788,190 |
| | **969,977** | 794,995 |

Investment properties under development are carried at cost as the directors of the Company consider the fair value of investment properties under development cannot be reliably determined due to some construction not even started yet at 31 December 2010.

(c) At 31 December 2010 and 2009, certain investment properties including its land use right were pledged as securities for bank loans as detailed in note 34.

(d) Location and leased terms of investment properties:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Completed investment properties in PRC held under medium-term lease | **848,164** | 6,805 |
| Investment properties under development in PRC held under medium-term lease | **121,813** | 788,190 |
| | **969,977** | 794,995 |

(e) The valuations of completed investment properties were arrived at by reference to net rental income allowing for reversionary income potential and market evidence of transaction prices for similar properties in the same locations and conditions, where appropriate. The valuations were carried out by an independent firm of Norton Appraisals Limited having staff holding recognized and relevant professional qualification with recent experiences in the location and category of property being valued.

## 15. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Building HK$'000 | Leasehold improvements HK$'000 | Office equipment HK$'000 | Motor vehicles HK$'000 | Furniture and fixtures HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2009 | 6,617 | 251 | 1,118 | 1,354 | 461 | 9,801 |
| Additions | – | – | 279 | 292 | 25 | 596 |
| Disposal of subsidiaries | – | – | – | – | (15) | (15) |
| Exchange alignments | (16) | – | (1) | (2) | (1) | (20) |
| At 31 December 2009 and 1 January 2010 | 6,601 | 251 | 1,396 | 1,644 | 470 | 10,362 |
| Additions | – | 2,540 | 409 | – | 133 | 3,082 |
| Exchange alignments | 1,169 | 69 | 31 | 46 | 6 | 1,321 |
| **At 31 December 2010** | **7,770** | **2,860** | **1,836** | **1,690** | **609** | **14,765** |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 January 2009 | 2,968 | 228 | 618 | 625 | 231 | 4,670 |
| Charge for the year | 2,296 | 20 | 166 | 267 | 92 | 2,841 |
| Disposal of subsidiaries | – | – | – | – | (13) | (13) |
| Exchange alignments | (4) | – | (1) | (1) | (1) | (7) |
| At 31 December 2009 and 1 January 2010 | 5,260 | 248 | 783 | 891 | 309 | 7,491 |
| Charge for the year | 1,355 | 737 | 275 | 322 | 87 | 2,776 |
| Exchange alignments | 1,155 | 19 | 17 | 27 | 4 | 1,222 |
| **At 31 December 2010** | **7,770** | **1,004** | **1,075** | **1,240** | **400** | **11,489** |
| **Carrying amount** | | | | | | |
| **At 31 December 2010** | **–** | **1,856** | **761** | **450** | **209** | **3,276** |
| At 31 December 2009 | 1,341 | 3 | 613 | 753 | 161 | 2,871 |

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The analysis of carrying amount of building held by the Group is as follows:

| | The Group 2010 HK$'000 | The Group 2009 HK$'000 |
|---|---|---|
| Located in PRC held under medium-term leases | – | 1,341 |

## 16. PROPERTIES UNDER DEVELOPMENT

| | The Group 2010 HK$'000 | The Group 2009 HK$'000 |
|---|---|---|
| At 1 January | 30,079 | 548,952 |
| Transfer to investment properties due to the adoption of Amendments to HKAS 40 | – | (519,090) |
| Change in construction cost estimation in prior year | (424) | – |
| Other incidental expenses capitalised during the year | 218 | 232 |
| Exchange alignments | 255 | (15) |
| At 31 December | 30,128 | 30,079 |

(a) At 31 December 2009, land use rights included in properties under development were pledged as securities for the Group's borrowings as detailed in note 34.

(b) The carrying amount of properties under development shown above are as follows:

| | The Group 2010 HK$'000 | The Group 2009 HK$'000 |
|---|---|---|
| Properties under development in PRC held under medium-term lease | 30,128 | 30,079 |

## 17. INTERESTS IN SUBSIDIARIES

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **150,548** | 150,548 |
| Impairment loss recognised (a) | **(2,100)** | (2,100) |
| | **148,448** | 148,448 |
| Due from subsidiaries (b) | **425,356** | 350,499 |
| | **573,804** | 498,947 |

(a) Star Palace Enterprises Limited, a subsidiary of the Company, ceased to conduct the shoes and bag retail business and remained inactive after the disposal of its retail business in 2006. In 2006, the management of the Company assessed the recoverable amounts of the investments in subsidiaries based on past performance, management's expectations for the market development and certain key assumptions. Based on these assessments, the carrying amounts of the investments in subsidiaries were written down by HK$2,100,000.

In 2010, the management of the Group re-assessed the recoverable amounts of the investments in subsidiaries on similar basis and concluded that no further impairment loss was required for the year.

## 17. INTERESTS IN SUBSIDIARIES (Continued)

(b) An analysis of the amounts due from subsidiaries is listed below:

| | The Company | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Due from subsidiaries | **457,576** | 433,405 |
| Less: Impairment | **(32,220)** | (82,906) |
| At 31 December | **425,356** | 350,499 |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors of the Company, the carrying amounts of the amounts due from subsidiaries approximate to their fair values.

In 2010, the management of the Group assessed the recoverable amounts of the amount due from subsidiaries after considering profitability, cash flow position, financial position, forecast business development and future prospects of the subsidiaries. Based on this assessment, the directors of the Company consider that the carrying values of the amounts due from subsidiaries net of the impairment losses recognised approximate to their recoverable amounts.

## 17. INTERESTS IN SUBSIDIARIES (Continued)

(c) The following list contains only the particulars of subsidiaries which affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name of subsidiary | Place of incorporation | Particulars of issued and paid up capital/ registered capital | Proportion of effective interest held by the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Star Palace Enterprises Limited | Hong Kong | 3,000,000 shares of HK$1 each | 70% | – | Inactive |
| Prospect Sync Holdings Limited | BVI | 1 share of US$1 | 100% | – | Investment holding |
| China Chen Holdings Limited | Hong Kong | 1 share of HK$1 | 100% | – | Under deregistration |
| Honesty Services Limited | Hong Kong | 1 share of HK$1 | 100% | – | Holding of motor vehicles |
| Honesty Treasure Limited | Hong Kong | 2 shares of HK$1 each | 50% | 50% | Provision of management services |
| Honesty Treasure Management Limited | Macau | Registered capital MOP25,000 | 4% | 96% | Inactive |
| Fast Action Developments Limited | BVI | 1 share of US$1 | 100% | – | Inactive |

## 17. INTERESTS IN SUBSIDIARIES (Continued)

(c) (Continued)

| Name of subsidiary | Place of incorporation | Particulars of issued and paid up capital/ registered capital | Proportion of effective interest held by the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Ampleline Holdings Limited | BVI | 1 share of US$1 | 100% | – | Inactive |
| Patient Holdings Limited | BVI | 1 share of US$1 | 100% | – | Property holding |
| Central Bingo Group Limited | BVI | 1 share of US$1 | 100% | – | Investment holding |
| China Infrastructure Limited | Hong Kong | 1 share of HK$1 | – | 100% | Investment holding |
| Pan-China (Shenyang) Real Estate Development Limited (Note (i)) | PRC | Issued and paid up capital US$79,890,000 | – | 70% | Property development |
| Shenyang Pan-China Commercial Property Management Limited (Note (ii)) | PRC | Issued and paid up capital RMB2,000,000 | – | 70% | Provision of property management services |
| Shenyang Pan-China Property Services Limited (Note (ii)) | PRC | Issued and paid up capital RMB2,000,000 | – | 70% | Provision of property management services |

Notes:

(i) Registered under the laws of the PRC as sino-foreign equity joint venture enterprise.

(ii) Registered under the laws of the PRC as domestic enterprise.

## 18. STOCK OF PROPERTIES

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Completed properties held for sale | **229,422** | – |
| Properties under development for sale expected to be completed within normal operating cycle included under current assets | **168,366** | 719,764 |
| | **397,788** | 719,764 |

(a) For the year ended 31 December 2010, the Group has sold completed properties held for sale for HK$517,516,000 (2009: HK$17,500,000) as detailed in note 4.

(b) The stock of properties at 31 December 2010 and 2009 are located in the PRC.

(c) At 31 December 2010 and 2009, the directors of the Company reviewed the carrying amounts of stock of properties with reference to current market situation and the estimated selling price of stock of properties as well as the valuation report prepared by Norton Appraisals Limited. No impairment loss recognised was made for the years ended 31 December 2010 and 2009.

(d) At 31 December 2010 and 2009, certain stock of properties including its land use right were pledged as securities for bank loans as detailed in note 34.

## 18. STOCK OF PROPERTIES (Continued)

(e) The carrying amounts of stock of properties shown above are as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Completed Properties held for sale in PRC held under medium-term lease | **229,422** | – |
| Properties under development for sale in PRC held under medium-term lease | **168,366** | 719,764 |
| | **397,788** | 719,764 |

## 19. TRADE AND OTHER RECEIVABLES

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2010** | 2009 | **2010** | 2009 |
| | Notes | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade debtors | | **56,629** | – | **–** | – |
| Less: Impairment loss for bad and doubtful debts | | **–** | – | **–** | – |
| | (a) | **56,629** | – | **–** | – |
| Loan receivables | (b) | **11,218** | 10,808 | **11,218** | 10,808 |
| Prepayments, deposits and other receivables | (c) | **201,939** | 170,715 | **140,736** | 151,681 |
| | | **269,786** | 181,523 | **151,954** | 162,489 |

## 19. TRADE AND OTHER RECEIVABLES (Continued)

(a) Trade debtors are mainly derived from sales of properties and rental income from investment properties. Sales proceeds and rental fee are paid in accordance with the terms of sale and purchase agreements and tenancy contracts.

The Group generally allows an average credit period due within 365 days to its trade debtors which are unsecured and interest free.

Included in trade and other receivables are trade debtors (net of allowance for bad and doubtful debts) with the following ageing analysis:

| | The Group | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| Due within 30 days or on demand | 2,153 | – |
| Due within 31 to 60 days | 11,854 | – |
| Due within 61 to 90 days | 21,804 | – |
| Due over 90 days | 20,818 | – |
| | 56,629 | – |

No trade debtors were impaired or past due at 31 December 2010 and 2009.

The Group has no significant concentrations of credit risk, with exposure spread over a large number of customers.

## 19. TRADE AND OTHER RECEIVABLES (Continued)

(a) (Continued)

The movement in the allowance account for the bad and doubtful debts during the year, including both specific and collective loss components, is as follows:

| | The Group 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| At 1 January | – | 153 |
| Amounts written off as uncollectible | – | (153) |
| At 31 December | – | – |

The amount has been determined to be uncollectible and has been derecognised in full at 31 December 2009.

(b) The loan receivables of HK$11,218,000 (2009: HK$10,808,000) is non-interest bearing and receivable on demand.

(c) Included in the prepayments, deposits and other receivables of HK$201,939,000 (2009: HK$170,715,000), the amount of HK$140,000,000 of the loan receivable is unsecured and non-interest bearing while approximately HK$968,000 (2009: HK$622,000) was due from a non-controlling interest, is unsecured and non-interesting bearing and arising from the ordinary course of business.

The directors of the Company consider the fair values of Group and the Company's trade and other receivables approximate its carrying amounts.

## 20. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| **Financial asset at fair value through profit or loss** | | |
| Option | **6,200** | – |

The Company has entered into an option agreement (the "Agreement"), pursuant to which the Company has been granted the option to acquire certain investments operating in natural gas related projects in the PRC (the "Option"); and to dispose of Shenyang Project (the "Transactions"). The Option is exercisable by the Company from the date of the Agreement to 18 February 2011. However, the Company has the right to extend the exercise period for the option to 20 May 2011 if due to no fault of the Company, the conditions precedent to the Transactions are not fulfilled on or before 18 February 2011. Details are set out in the announcement dated 5 November 2010.

The consideration for the Option was HK$15,000,000 in cash.

The Option was designated as financial asset at fair value through profit or loss upon initial recognition.

At 31 December 2010, the valuation was carried out by an independent firm of BMI Appraisals Limited having staff holding recognised and relevant professional qualification with recent experiences in the similar type of option being valued, resulting in a loss of HK$8,800,000 which has been charged to the consolidated income statement.

The Option is measured at fair value and is classified as Level 3 fair value measurement. Fair value is estimated using Black-Scholes Option Pricing Model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value, the volatility of 3.6% and interest rate of 0.31% are used. If these inputs to the valuation model were 5% higher/lower while all the other variables were held constant, the fair value of the Option would increase/decrease by approximately of HK$725,000.

## 21. CASH AND BANK BALANCES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances (Notes 1&2) | **362,028** | 250,612 | **325,404** | 52,742 |
| Less: pledged deposits (Notes 2&3) | **(1,568)** | (145,204) | **–** | – |
| Cash and cash equivalents | **360,460** | 105,408 | **325,404** | 52,742 |

Notes:

1. Included in cash and bank balances of the Group is approximately HK$26,163,000 (2009: HK$130,114,000) of bank balances denominated in Renminbi ("RMB") and is placed in banks in the PRC. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

2. Bank balances and pledged deposits earn interests at floating and fixed rates respectively, and are placed and deposited with creditworthy banks with no recent history of default.

3. The Group's pledged deposits at 31 December 2010 and 2009 mature within 1 year.

The directors of the Company consider the fair values of Group and the Company's cash and bank balances approximate its carrying amounts.

## 22. ASSETS CLASSIFIED AS HELD FOR SALE

(a) The disposal agreement was entered into between the Company and the purchaser with regard to the disposal of (i) the Sale Share, being the entire interest of Pearl Oriental Macau, in which the principal assets are the MOP400,000 issued quota of Golden Dragon, representing the interest in an associate of the Group ("Disposal Group"); and (ii) the Shareholder's Loans (being approximately HK$346.7 million), which was included in interests in subsidiaries, by the Company for an aggregate consideration of HK$400 million.

The transaction was completed on 29 January 2010.

### (i) The Group

The major class of assets classified as held for sale is as follows:

| | 2009<br>HK$'000 |
|---|---|
| Interests in Disposal Group | 450,298 |
| Less: loss on re-measurement to fair value less costs to sell (Note) | (50,298) |
| | 400,000 |

Note: HK$50,298,000 represented the difference between the aggregate net asset value of Disposal Group at 31 December 2009 and the consideration received of HK$400,000,000.

The details of the result and cash flow are set out in note 11(ii).

### (ii) The Company

The major class of assets of the Disposal Group classified as held for sale is as follows:

| | 2009<br>HK$'000 |
|---|---|
| Shareholder's Loans | 346,674 |

## 22. ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

(b) The Company announced that the provisional agreement was entered into between the purchaser and Patient Holdings Limited, a wholly-owned subsidiary of the Company in relation to the disposal of the property located at 29th Floor, The Sun's Group Centre, No.200 Gloucester Road, Hong Kong for a total consideration of HK$84,900,000. The fair value of the investment properties at 31 December 2009 was HK$78,000,000.

The transaction was completed on 17 March 2010.

The major class of assets classified as held for sale is as follows:

| | 2009<br>HK$'000 |
|---|---|
| Investment property (Note) | 78,000 |

Note:

The fair value of investment property located in Hong Kong at 31 December 2009 were arrived at on the basis of a valuation carried out by BMI Appraisals Limited, an independent qualified professional valuers not connected with the Group having staff holding recognised and relevant professional qualification with recent experiences in the location and category of investment properties being valued. The valuations conformed to international valuation standards and were arrived at by reference to the market evidence of transaction prices for similar properties for the vacant units. The tenanted units were valued on the basis of capitalisation of net income receivable.

## 23. TRADE AND OTHER PAYABLES

| | Notes | The Group 2010 HK$'000 | The Group 2009 HK$'000 | The Company 2010 HK$'000 | The Company 2009 HK$'000 |
|---|---|---|---|---|---|
| Trade creditors | (a) | **16,714** | 10,719 | **–** | – |
| Accruals and other payables | | **12,598** | 21,825 | **1,424** | 3,459 |
| Advanced proceeds received from customers | | **173,021** | 266,455 | **–** | – |
| Deposits received | | **–** | 50,600 | **–** | 50,000 |
| Due to non-controlling interests | (b) | **265,564** | 356,104 | **–** | – |
| Other loans | (c) | **12,819** | 11,231 | **1,636** | 1,601 |
| | | **480,716** | 716,934 | **3,060** | 55,060 |

(a) Ageing analysis of trade creditors is as follows:

| | The Group 2010 HK$'000 | The Group 2009 HK$'000 |
|---|---|---|
| Due within 30 days or on demand | **6,380** | 2,745 |
| Due within 31 to 60 days | **–** | 328 |
| Due within 61 to 90 days | **–** | 312 |
| Due over 90 days | **10,334** | 7,334 |
| | **16,714** | 10,719 |

## 23. TRADE AND OTHER PAYABLES (Continued)

(b) (i) At 31 December 2010, out of the total amount of HK$265,564,000 (2009: HK$356,104,000), amounts due to non-controlling interests of HK$180,310,000 (2009: HK$213,519,000) was unsecured, non-interest bearing and have no fixed terms of repayments.

(ii) At 31 December 2010, loan amounting to approximately HK$85,254,000, principal thereof approximately HK$72,759,000, interest thereof approximately HK$12,495,000 from a non-controlling interest was secured, bearing interest at 8% per annum and repayable on demand. There was a credit facility granted by the lender to the non-controlling interests for the utilization by the Group's subsidiary. Such credit was secured by investment properties including its land use right as detailed in note 34.

At 31 December 2009, loan amounting to approximately HK$52,342,000, principal thereof approximately HK$52,172,000, interest thereof approximately HK$170,000 from a non-controlling interest according to a Shareholder's Loan Agreement ("Agreement"). In accordance with the Agreement, there was a Credit Facility granted by the lender to the non-controlling interests for the utilization by the Group's subsidiary. Such credit was secured by investment properties including its land use right as detailed in note 34. The details were set out in the circular dated 9 November 2009.

(iii) At 31 December 2009, loan amounting to approximately HK$90,243,000, principal thereof approximately HK$68,050,000, interest thereof approximately HK$22,193,000, was unsecured, bearing interest at 8% per annum, repayable on demand and due to a non-controlling interest.

(c) Other loans of the Group and the Company amounting to approximately HK$1,636,000 (2009: HK$1,601,000) were due to independent third parties and unsecured, bearing interest at 2.5% per annum and repayable on demand.

Out of the total amount of HK12,819,000 (2009: HK$11,231,000), other loans of HK$11,183,000 (2009: HK$9,630,000) is non-interest bearing and repayable on demand.

The directors of the Company consider the fair values of Group and the Company's trade and other payables approximate its carrying amounts.

## 24. INTEREST-BEARING BORROWINGS, SECURED

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Within 1 year or on demand | **–** | 317,397 |
| After 1 year but within 2 years | **100,047** | 2,513 |
| After 2 years but within 5 years | **–** | 7,537 |
| More than 5 years | **–** | 22,611 |
| | **100,047** | 350,058 |

The bank loans were secured as follows:

| | The Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Effective Interest rate (%)** | **HK$'000** | Effective Interest rate (%) | HK$'000 |
| Bank loans – secured | **5.94** | **100,047** | 1.45-6.45 | 350,058 |

## 24. INTEREST-BEARING BORROWINGS, SECURED (Continued)

(a) At 31 December 2010, the Group had outstanding bank borrowings of approximately HK$100,047,000, which were secured by stock of properties including its land use right as detailed in note 34. The loan is subject to floating interest rate with an annual adjustment, and the effective interest rate is currently at 5.940% per annum, which is the benchmark interest rate of 5.4% announced by the People's Bank of China plus a margin of 10%.

(b) At 31 December 2009, the Group had outstanding bank borrowings of approximately HK$170,126,000, which were secured by portion of properties under development held for sale with a carrying amount of approximately HK$251,794,000 and a deposit in the amount of HK$12,154,000.

(c) At 31 December 2009, the Group had outstanding bank borrowing of approximately HK$56,709,000, which was secured by a deposit of HK$65,000,000 placed by a wholly-owned subsidiary of the Company as well as the corporate guarantee issued by the Company.

(d) At 31 December 2009, the Group had outstanding bank borrowing of approximately HK$55,173,000 which was secured by the investment property of the Group with a carrying value of HK$78,000,000 as well as the corporate guarantee to the extent of HK$58,000,000 issued by the Company, out of total amount of HK$55,173,000, approximately HK$35,173,000 is repayable by monthly installments until September 2023.

(e) At 31 December 2009, the Group had outstanding bank loan of approximately of HK$68,050,000 was secured by the pledged deposit of approximately HK$68,050,000.

(f) The directors of the Company consider the fair values of Group and the Company's interest-bearing borrowings, secured approximate its carrying amounts.

## 25. CONVERTIBLE NOTES

### The Group and the Company

On 28 April 2006, the Company issued HK$91,094,000 convertible notes (2011 convertible notes) redeemable within 5 years from the date of issue. The notes bear interest at 2.5% per annum and are unsecured. The holders of the notes have the right at any time after the issue of the notes to convert any outstanding amount of the notes into the shares of the Company at the conversion price of HK$0.148 per share (subject to adjustment) until 27 April 2011. Further details are set out in the Company's circular dated 22 March 2006.

The convertible notes contain two components, namely, a liability component and an equity component. The equity element is presented in equity under the heading "convertible notes – equity reserves". The effective interest rate of the liability component is 7.094%.

On 24 August 2007, the Company further issued HK$160,000,000 convertible notes (2012 convertible notes) redeemable within 5 years from the date of issue. The notes bear interest at 2.5% per annum and are unsecured. The holders of the notes have the right at any time after the issue of the notes to convert any outstanding amount of the notes into the shares of the Company at the conversion price of HK$0.3 per share (subject to adjustment) until 23 August 2012. Further details are set out in the Company's circular dated 11 July 2007.

On 25 September 2009, Fast Action and the Purchasers entered into a settlement agreement in respect of the procurement of settlement of a portion of the final payment to Fast Action under a disposal by way of early redemption of certain amount of the Convertible Notes at face value by the Company. Out of the total amount of HK$126.5 million, the amount of HK$95,000,000 settled by the way of early redemption of 2012 convertible notes at face value by the Company.

The convertible notes contain two components, namely, a liability component and an equity component. The equity element is presented in equity under the heading "convertible notes – equity reserves". The effective interest rate of the liability component is 6.738%.

In October 2009, the Company early redeemed the 2012 convertible note of face value of HK$95,000,000 as part of consideration of disposal of CIDCOL. The fair value of the liability component, on the date of redemption determined with reference to the discount rate of 7.98% representing the then prevailing borrowing rate of the Company, was approximately of HK$82,300,000. The excess of the carrying amount over the fair value of the liability component resulted in gains of approximately HK$3,127,000 from the redemption of the 2012 convertible note and were recognized in the consolidated income statement in 2009.

## 25. CONVERTIBLE NOTES (Continued)

### The Group and the Company (Continued)

The movement of the liability component of the convertible notes is set out below:

| | The Group and the Company | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| At 1 January | 94,147 | 177,977 |
| Interest charged | 6,386 | 10,757 |
| Interest paid | (2,536) | (5,461) |
| Early redemption of convertible note | – | (85,427) |
| Conversion during the year | – | (3,699) |
| At 31 December | 97,997 | 94,147 |
| Analysed for reporting purpose | | |
| Current portion | 36,556 | – |
| Non-current portion | 61,441 | 94,147 |
| At 31 December | 97,997 | 94,147 |

## 26. DEFERRED TAX LIABILITIES

The net movement on the deferred tax liabilities is as follows:

| | The Group | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| At 1 January | 78,711 | 75,685 |
| Addition | 6,698 | 3,027 |
| Exchange alignments | 959 | (1) |
| At 31 December | 86,368 | 78,711 |

## 26. DEFERRED TAX LIABILITIES (Continued)

The movements in deferred tax liabilities during the year were as follows:

| | Fair value adjustments arising from valuation of investment properties HK$'000 | Fair value adjustments arising from acquisition of subsidiaries HK$'000 | Temporary differences HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2009 | – | 75,685 | – | 75,685 |
| Charged to consolidated income statement | 2,971 | – | 56 | 3,027 |
| Exchange alignments | – | (1) | – | (1) |
| At 31 December 2009 and 1 January 2010 | 2,971 | 75,684 | 56 | 78,711 |
| Released upon disposal of investment properties | (2,971) | – | – | (2,971) |
| Charged to consolidated income statement | 9,669 | – | – | 9,669 |
| Exchange alignments | 263 | 695 | 1 | 959 |
| At 31 December 2010 | 9,932 | 76,379 | 57 | 86,368 |

## 27. EMPLOYEE RETIREMENT BENEFITS

(a) The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

(b) Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities, whereby the Group is required to make contributions to the Schemes at a rate ranging from 5% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees which are calculated based on a certain percentage of the basic payroll.

Information of the total expenses on retirement benefits scheme contributions is presented on note 6(b).

## 28. CAPITAL AND RESERVES

### (a) The Company

| | Share capital HK$'000 | Share premium HK$'000 | Capital redemption reserve (Note) HK$'000 | Convertible notes equity reserve HK$'000 | (Accumulated losses)/ retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2009 | 199,646 | 722,077 | 69 | 35,703 | (33,479) | 924,016 |
| Shares issued at a premium on conversion of convertible notes | 1,539 | 3,016 | – | (856) | – | 3,699 |
| Shares issued at a premium on exercise of warrants | 1 | 3 | – | – | – | 4 |
| Early redemption of convertible notes | – | – | – | (16,624) | 3,925 | (12,699) |
| Loss for the year | – | – | – | – | (3,375) | (3,375) |
| At 31 December 2009 and 1 January 2010 | 201,186 | 725,096 | 69 | 18,223 | (32,929) | 911,645 |
| Profit for the year | – | – | – | – | 44,660 | 44,660 |
| **At 31 December 2010** | **201,186** | **725,096** | **69** | **18,223** | **11,731** | **956,305** |

Note: Capital redemption reserve represents the nominal value of shares repurchased out of distributable profit.

The consolidated profit/(loss) attributable to owners of the Company includes a profit of HK$44,660,000 (2009: loss of HK$3,375,000) which has been dealt with in financial statements of the Company.

## 28. CAPITAL AND RESERVES (Continued)

### (b) Share capital

**The Group and the Company**

| | Notes | Number of shares 2010 '000 | Number of shares 2009 '000 | Nominal value 2010 HK$'000 | Nominal value 2009 HK$'000 |
|---|---|---|---|---|---|
| Authorised: | | | | | |
| Ordinary shares of HK$0.05 each | | **10,000,000** | 10,000,000 | **500,000** | 500,000 |
| Ordinary shares: | | | | | |
| Issued and fully paid: | | | | | |
| At 1 January | | **4,023,710** | 3,992,921 | **201,186** | 199,646 |
| Issue of new shares on conversion of convertible notes | (i) | **–** | 30,774 | **–** | 1,539 |
| Shares issued upon exercise of warrants | (ii) | **–** | 15 | **–** | 1 |
| At 31 December | | **4,023,710** | 4,023,710 | **201,186** | 201,186 |

(i) For the year ended 31 December 2009, the holders of 2011 Convertible Notes converted certain notes into 30,774,000 ordinary shares at a conversion price of HK$0.148 per share.

## 28. CAPITAL AND RESERVES (Continued)

### (b) Share capital (Continued)

(ii) For the year ended 31 December 2009, new shares were issued upon the conversion of certain 2009 Warrants into 15,392 new shares of HK$0.05 each at a price of HK$0.25 per share.

(iii) Warrants

| | Date of issue | Expiry date | At 1/1/2009 | Exercised during the year | Lapsed during the year | At 31/12/2009 |
|---|---|---|---|---|---|---|
| 2009 Warrants | 7/6/2006 | 6/6/2009 | 253,883,435 | (15,392) | (253,868,043) | – |

The subscription rights attached to the warrants (the "2009 Warrants") expired and the last time to exercise the subscription rights were at 4:00 p.m. on Friday, 5 June 2009.

### (c) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which includes convertible notes, loan amount due to non-controlling interests, other loans and interest-bearing borrowings, secured net of cash and bank balances, and equity attributable to owners of the Company, comprising issued share capital and reserves of the Group and the Company.

## 28. CAPITAL AND RESERVES (Continued)

### (c) Capital management (Continued)

The gearing ratio at 31 December 2010 and 2009 was as follows:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | 2010 | 2009 | 2010 | 2009 |
| | Notes | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Current liabilities:** | | | | | |
| Trade and other payables | | **98,073** | 153,816 | **1,636** | 1,601 |
| Interest-bearing borrowings, secured | 24 | **–** | 317,397 | **–** | – |
| Convertible notes | 25 | **36,556** | – | **36,556** | – |
| | | **134,629** | 471,213 | **38,192** | 1,601 |
| **Non-current liabilities:** | | | | | |
| Interest-bearing borrowings, secured | 24 | **100,047** | 32,661 | **–** | – |
| Convertible notes | 25 | **61,441** | 94,147 | **61,441** | 94,147 |
| **Total debts** | | **296,117** | 598,021 | **99,633** | 95,748 |
| Less: cash and bank balances (including disposal group) | 21 | **(362,028)** | (250,612) | **(325,404)** | (52,742) |
| **Net debt** | | **(65,911)** | 347,409 | **(225,771)** | 43,006 |
| **Equity** | (a) | **1,004,497** | 974,631 | **956,305** | 911,645 |
| **Net debt to equity ratio** | | **N/A** | 35.6% | **N/A** | 4.7% |

Note:

(a) Equity includes issued share capital and reserves of the Group and the Company.

(d) The directors of the Company did not recommend any payment of dividend for the year ended 31 December 2010 (2009: HK$nil).

## 29. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Disposal of a subsidiary

Details of the disposal of all interests in CIDCOL held by Fast Action (note 11(i)) and the interests in net assets of CIDCOL are as follows:

| | 2009<br>HK$'000 |
|---|---|
| **Interests in net assets of CIDCOL:** | |
| Property under development | 318,822 |
| Other receivables | 270 |
| Cash and cash equivalents | 150,443 |
| Accruals | (706) |
| Loans from shareholders | (303,250) |
| Interest-bearing borrowings | (150,000) |
| | 15,579 |
| Net assets belong to the Company – 55% | 8,569 |
| Shareholders' loan belong to the Company | 100,787 |
| ***Net assets disposed of:*** | 109,356 |
| Gain on disposal of a subsidiary | 17,144 |
| Total consideration apportioned to the Company | 126,500 |
| Satisfied by: | |
| – HK$95 million settled by face value of HK$95 million of convertible note (note) | 95,000 |
| – HK$31.5 million settled by cash | 31,500 |
| Total consideration apportioned to the Company | 126,500 |
| ***Analysis of net outflow of cash and cash equivalents on disposal of a subsidiary*** | |
| Cash consideration received | 31,500 |
| Less: Bank balances and cash of a subsidiary disposed | (150,443) |
| | (118,943) |

Note: The consideration was satisfied by face value of HK$95,000,000 of convertible note being a non-cash transaction.

## 30. FINANCIAL INSTRUMENTS

The Group's major financial instruments include interest-bearing borrowings, trade and other receivables but not including the prepayment, trade and other payables but not including the advanced proceeds received from customers, cash and bank balances and convertible notes and were classified into the categories as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables | **615,484** | 408,494 |
| Financial assets designated as at fair value through profit or loss | **6,200** | – |
| **Financial liabilities** | | |
| Amortised cost | **505,739** | 844,084 |

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments are limited and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group has exposure to credit, liquidity, interest rate and currency risks arise in the normal course of the Group's business. The Group is also exposed to equity price risk arising from movements in its own equity share price.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

## 30. FINANCIAL INSTRUMENTS (Continued)

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and cash and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within a year. Debtors with balances that are more than a year past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from its customers. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for impairment of receivables and actual losses incurred have been within management's expectation.

In respect of cash and bank balances, the Group limits its exposure to credit risk by transacting with approved and reputable banks with high credit ratings. Bankruptcy or insolvency of these banks may cause the Group's rights with respect to these assets held to be delayed or limited. The Group monitors the credit ratings of these banks on an ongoing basis, and considers that the Group's exposure to credit risk at 31 December 2010 and 2009 were minimal.

The Group has policies in place to ensure that sales are made to purchasers with an appropriate financial strength and appropriate percentage of down payments. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spread over a large number of customers.

## 30. FINANCIAL INSTRUMENTS (Continued)

### (a) Credit risk (continued)

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset after deducting any impairment allowance.

For properties sold, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties. If a purchaser defaults on the payment of its mortgage during the period of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding loan and any interest accrued thereon. As the mortgage loans are secured by the properties with current market price higher than the guaranteed amounts, the management considers it would recover any loss incurred arising from the guarantee provided by the Group.

### (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 to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

## 30. FINANCIAL INSTRUMENTS (Continued)

### (b) Liquidity risk (continued)

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

**The Group**

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2010** | | | | | | |
| Interest- bearing borrowings, secured | 100,047 | 112,286 | – | 112,286 | – | – |
| Other loans | 12,819 | 12,854 | 12,854 | – | – | – |
| Trade creditors | 16,714 | 16,714 | 16,714 | – | – | – |
| Accruals and other payables | 12,598 | 12,598 | 12,598 | – | – | – |
| Due to non-controlling interests | 265,564 | 271,385 | 271,385 | – | – | – |
| Convertible notes | 97,997 | 101,066 | 38,473 | 62,593 | – | – |
| | 505,739 | 526,903 | 352,024 | 174,879 | – | – |

## 30. FINANCIAL INSTRUMENTS (Continued)

### (b) Liquidity risk (continued)

#### The Group

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 |
|---|---|---|---|---|---|---|
| At 31 December 2009 | | | | | | |
| Interest- bearing borrowings, secured | 350,058 | 367,215 | 331,355 | 2,930 | 8,708 | 24,222 |
| Other loans | 11,231 | 11,266 | 11,266 | – | – | – |
| Trade creditors | 10,719 | 10,719 | 10,719 | – | – | – |
| Accruals and other payables | 21,825 | 21,825 | 21,825 | – | – | – |
| Due to non-controlling interests | 356,104 | 367,511 | 367,511 | – | – | – |
| Convertible notes | 94,147 | 109,046 | 2,536 | 69,161 | 37,349 | – |
| | 844,084 | 887,582 | 745,212 | 72,091 | 46,057 | 24,222 |

## 30. FINANCIAL INSTRUMENTS (Continued)

### (b) Liquidity risk (continued)

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

The Company

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 |
|---|---|---|---|---|---|---|
| At 31 December 2010 | | | | | | |
| Accruals and other payables | 1,424 | 1,424 | 1,424 | – | – | – |
| Other loans | 1,636 | 1,671 | 1,671 | – | – | – |
| Convertible notes | 97,997 | 101,066 | 38,473 | 62,593 | – | – |
| | 101,057 | 104,161 | 41,568 | 62,593 | – | – |

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 |
|---|---|---|---|---|---|---|
| At 31 December 2009 | | | | | | |
| Accruals and other payables | 3,459 | 3,459 | 3,459 | – | – | – |
| Other loans | 1,601 | 1,636 | 1,636 | – | – | – |
| Convertible notes | 94,147 | 109,046 | 2,536 | 69,161 | 37,349 | – |
| | 99,207 | 114,141 | 7,631 | 69,161 | 37,349 | – |

## 30. FINANCIAL INSTRUMENTS (Continued)

### (c) Interest rate risk

The Group's interest rate risk arises primarily from the Group's bank loans and other borrowings. Borrowings at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

| | The Group | | | |
|---|---|---|---|---|
| | **Effective interest rate %** | **2010 HK$'000** | Effective interest rate % | 2009 HK$'000 |
| **Net fixed rate borrowings:** | | | | |
| Other loan | **2.5-8.0** | **12,819** | 2.5-8.0 | 11,231 |
| Due to non-controlling interest | **8** | **85,254** | 8 | 142,516 |
| Convertible notes | **6.74-7.09** | **97,997** | 6.74-7.09 | 94,147 |
| | | **196,070** | | 247,894 |
| Variable rate borrowings: | | | | |
| Bank loans | **5.94** | **100,047** | 1.45-8.32 | 282,008 |
| Total net borrowings | | **296,117** | | 529,902 |
| Net fixed rate borrowings as a percentage of total net borrowings | | **66%** | | 47% |

## 30. FINANCIAL INSTRUMENTS (Continued)

### (c) Interest rate risk (continued)

| | The Company | | | |
|---|---|---|---|---|
| | **Effective interest rate** | **2010** | Effective interest rate | 2009 |
| | **%** | **HK$'000** | % | HK$'000 |
| **Net fixed rate borrowings:** | | | | |
| Other loan | **2.5** | **1,636** | 2.5 | 1,601 |
| Convertible notes | **6.74-7.09** | **97,997** | 6.74-7.09 | 94,147 |
| Total net borrowings | | **99,633** | | **95,748** |
| Net fixed rate borrowings as a percentage of total net borrowings | | **100%** | | 100% |

*(i) Sensitivity analysis*

At 31 December 2010, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained earnings by approximately HK$500,000. (2009: increase/decrease the Group's loss after tax and retained earnings by approximately HK$1,410,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2009.

## 30. FINANCIAL INSTRUMENTS (Continued)

### (d) Currency risk

The majority of the Group's transactions are denominated in the Hong Kong Dollars ("HKD") and Renminbi ("RMB"). Presently, the Group has no hedging policy with respect to its foreign exchange exposure.

The Group's transactional currencies are HKD and RMB as substantially all revenue and costs being denominated in HKD and RMB.

With transaction in United States Dollars ("USD"), the impact of it is insignificant as the HKD is pegged to USD at a fixed rate of approximate to HK$7.8 = USD1.

With respect to receivables, payables, cash and bank balances, and borrowings denominated in RMB which are exposed to foreign currency risk. Depreciation or appreciation of the RMB against can affect the Group's position, results and equity.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

The carrying amount of the Group's and the Company's foreign currency denominated financial assets and financial liabilities at the reporting date are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Assets | | | | |
| RMB | **138,896** | 170,924 | **11,218** | 10,808 |
| United States dollars ("USD") | **5** | 5 | **5** | – |
| Liabilities | | | | |
| RMB | **402,615** | 811,360 | **–** | – |

## 30. FINANCIAL INSTRUMENTS (Continued)

### (d) Currency risk (continued)

*Sensitivity analysis*

The Group mainly exposes to the currency of RMB. The following table indicates the approximate increase/decrease in the Group's profit for the year in response to reasonably possible changes in the foreign exchange rate to which the Group has significant exposure at the balance sheet date (2009: decrease/increase the Group's loss). 5% is the sensitivity rate used as it represents management's assessment of the reasonably possible change in foreign exchange rate.

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| RMB | | | | |
| – increase/decrease on profit for the year (2009: decrease/ increase the Group's loss) | **13,186** | 32,022 | **561** | 540 |
| USD | | | | |
| – increase/decrease on profit for the year (2009: decrease/ increase the Group's loss) | **1** | 1 | **1** | – |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against Hong Kong dollar. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit/(loss) after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2009.

## 30. FINANCIAL INSTRUMENTS (Continued)

### (e) Fair values of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions.

- the fair values of other financial assets and other financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models mainly based on volatility of difference on asset's price analysis and discounted cash flow analysis respectively.

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial liability recorded in these consolidated financial statements approximate their fair values:

**Carrying amount**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Financial liability** | | |
| Convertible notes | **97,997** | 94,147 |

**Fair value**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Financial liability** | | |
| Convertible notes | **99,539** | 92,674 |

## 30. FINANCIAL INSTRUMENTS (Continued)

### (e) Fair values of financial instruments (Continued)

Disclosure of fair value measurement by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

| | Level 1<br>HK'000 | Level 2<br>HK'000 | Level 3<br>HK'000 | Total<br>HK'000 |
|---|---|---|---|---|
| **At 31 December 2010** | | | | |
| Financial asset at fair value through profit or loss (Note) | – | – | 6,200 | 6,200 |

Note: The fair value of Option classified as financial asset at fair value through profit or loss is measured using Black-Scholes Option Pricing Model. Details are set out in Note 20.

There were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

## 30. FINANCIAL INSTRUMENTS (Continued)

### (e) Fair values of financial instruments (Continued)

Reconciliation of Level 3 fair value measurements of financial asset as follows:

| | 2010<br>HK$'000 |
|---|---|
| At 1 January | – |
| Purchase | 15,000 |
| Loss arising on change in fair value of financial asset at fair value through profit or loss | (8,800) |
| **At 31 December** | **6,200** |

## 31. CONTINGENT LIABILITIES

A subsidiary of the Group (the "subsidiary") has entered into agreements with certain banks with respect to mortgage loans provided to buyers of the subsidiary's property units and has given guarantees on mortgage loans provided to the buyers by these banks under the agreements. Pursuant to the terms of guarantees, upon default in payments of mortgage installments by these buyers, the subsidiary is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted buyers to the banks and the subsidiary is entitled to take over the legal title and possession of the related properties. The total outstanding guarantees to the banks amounted to approximately HK$123,894,000 (2009: HK$28,910,000).

In the opinion of the directors of the Company, the fair values of the financial guarantee contracts of the subsidiary are insignificant at initial recognition, and the directors of the Company consider that the possibility of default by the parties involved is remote, and in case of default in payments, the net realisable value of the related properties can recover the repayment of the outstanding mortgage principals together with the accrued interest and penalty. Accordingly, no provision has been made in the consolidated financial statements for guarantees.

The Group had no other significant contingent liabilities.

## 32. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group had the following material transactions with its related parties for the year ended 31 December 2010 and 2009:

| (a) | Construction services | | Marketing and promotion services | |
|---|---|---|---|---|
| | **Year ended 31/12/2010 HK$'000** | Year ended 31/12/2009 HK$'000 | **Year ended 31/12/2010 HK$'000** | Year ended 31/12/2009 HK$'000 |
| Provided by: | | | | |
| Non-controlling interest | **128,570** | 410,569 | **–** | – |
| Associate entity of non-controlling interest | **–** | – | **628** | 2,017 |

(b) At 31 December 2008, Mr. Law Kar Po, Mr. Hoi Man Pak and Mr. Choy Wang Kong (who are executive Directors of the Company) and Mr. Wu Ka I, Miguel (who is an ex-Director of the Company) provided a personal guarantee of HK$60,000,000, HK$45,000,000, HK$37,500,000, and HK$7,500,000 respectively to a bank to secure banking facilities of HK$150,000,000 granted to CIDCOL, a subsidiary of the Company, for which no charge is made. Upon the renewal of the banking facility on 27 March 2009, this personal guarantee, in the total amount of HK$150,000,000, became jointly and severally which was released upon the completion of the disposal of CIDCOL on 29 October 2009.

## 32. RELATED PARTY TRANSACTIONS (Continued)

### (c) Financing arrangements

(i) The outstanding balances due to non-controlling interest are included in "Trade and other payables" (note 23).

(ii) During the year ended 31 December 2009, China Infrastructure Investment Limited issued a guarantee and China Infrastructure Limited placed a pledged deposit in the amount of approximately HK$65,000,000 to secure the bank loans of approximately HK$56,709,000 obtained by a subsidiary of the Company for no charge. The bank loans had been repaid in January 2010 while the pledged deposit was released accordingly.

(iii) During the year ended 31 December 2009, loans amounting to approximately HK$90,243,000, principal thereof approximately HK$68,050,000, interest thereof approximately HK$22,193,000 from a non-controlling interest was unsecured, interest bearing at 8% per annum and repayable on demand.

(iv) At 31 December 2010, loan amounting to approximately HK$85,254,000, principal thereof approximately HK$72,759,000, interest thereof approximately HK$12,495,000 from a non-controlling interest. There was a Credit Facility granted by the lender to the non-controlling interests for the utilization by the Group's subsidiary. Such credit was secured by investment properties including its land use right as detailed in note 34.

At 31 December 2009, loan amounting to approximately HK$52,342,000, principal thereof approximately HK$52,172,000, interest thereof approximately HK$170,000 from a non-controlling interest according to a Shareholder's Loan Agreement ("Agreement"). In accordance with the Agreement, there was a Credit Facility granted by the lender to the non-controlling interests for the utilization by the Group's subsidiary. Such credit was secured by investment properties including its land use right as detailed in note 34. The details were set out in the circular dated 9 November 2009.

### (d) Key management personnel remuneration

Remuneration for key management personnel of the Group comprises amounts paid to the Company's directors as disclosed in note 7 and those highest paid employees as disclosed in note 8.

## 33. COMMITMENTS

**(a)** Commitments outstanding not provided for in these consolidated financial statements were as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Commitments: | | |
| – contracted but not provided for the property development project | **643,757** | 961,796 |
| | **643,757** | 961,796 |

**(b)** The total future minimum lease payments under non-cancellable operating leases in respect of properties are payable and receivables as follows:

*(i) As lessee*

The Group had total outstanding commitments for future minimum lease payable under non-cancellable operating leases in respect of properties, which fall due as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| No later than 1 year | **631** | 875 |
| Later than 1 year and no later than 5 years | **–** | 546 |
| | **631** | 1,421 |

The Group has no contingent rentals and sub-lease payments received during the years ended 31 December 2010 and 2009. Minimum lease payments during the years ended 31 December 2010 and 2009 are disclosed in note 6(b).

## 33. COMMITMENTS (Continued)

### (b) (Continued)

#### *(ii) As lessor*

The Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| No later than 1 year | **8,843** | 3,756 |
| Later than 1 year and no later than 5 years | **45,864** | 8,015 |
| Later than 5 years | **102,181** | 14,106 |
| | **156,888** | 25,877 |

The Group leased out certain investment properties under operating lease with average lease terms of 10 years.

## 34. PLEDGE OF ASSETS

The Group pledged the following assets to secure general banking facilities:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Assets classified as held for sale | **–** | 78,000 |
| Land use rights included in investment properties, properties under development and stock of properties | **171,160** | 93,348 |
| Investment properties | **724,862** | 503,961 |
| Stock of properties | **113,894** | 210,811 |
| Bank deposits | **1,568** | 145,204 |
| | **1,011,484** | 1,031,324 |

## 35. ACCOUNTING ESTIMATES AND JUDGEMENTS

### (a) Key sources of estimation uncertainty

Notes 14, 27 and 30 contain information about the assumptions and their risk factors relating to valuation of investment property, defined contribution employee retirement benefits and financial instruments. Other key sources of estimation uncertainty are as follows:

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have a significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date 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.

The preparation of consolidated financial statements often requires the use of judgment to select specific accounting methods and policies from several acceptable alternatives. Estimates and judgments used in preparing the consolidated financial statements 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 circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The followings are the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the consolidated financial statements:

## 35. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (b) Critical accounting judgement in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below.

*(i) Impairment of assets*

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on the asset's fair value less costs to sell. These assessments require the use of estimates.

The fair value less costs to sell primarily use cash flow projections based on financial budgets approved by management and estimated terminal values at the end of the period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and operating margin, effective tax rate, growth rates and selection of discount rates, to reflect the risks involved and the earnings multiple that can be realized for the estimated terminal value.

Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

## 35. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (b) Critical accounting judgement in applying the Group's accounting policies (Continued)

*(ii) Provision for impairment of trade and other receivables*

The Group has no significant concentration of credit risk. The Group makes impairment loss for receivables based on an assessment of the recoverability of trade and other receivables. Allowances are made for trade and other receivables where events or changes in circumstance indicate that the balances may not be collectible based on primarily the ageing of trade and other receivables and the historical write-off experience, net of recoveries. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and allowance for doubtful debt in the period in which such estimates has been changed.

*(iii) Impairment of property, plant and equipment*

The Group's property, plant and equipment represent a significant portion of the Group's total assets. Changes in industry conditions may cause the estimated period of use or the value of these assets to change. Long-lived assets including property, plant and equipment are reviewed for impairment at least annually or whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount is estimated.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, 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, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | (Re-presented) | | | |
| Turnover | **526,440** | 20,918 | 1,557 | 27,876 | 72,873 |
| Profit/(loss) attributable to owners of the Company | **12,149** | (135,859) | (116,091) | 101,973 | 57,246 |
| Dividends | **–** | – | – | – | – |
| Basis earnings/(loss) per share | **0.30 cents** | (3.39 cents) | (2.91 cents) | 3.23 cents | 2.09 cents |
| Diluted earnings per share | **N/A** | N/A | N/A | 2.76 cents | 1.93 cents |

## ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **2,039,183** | 2,457,844 | 2,331,337 | 2,215,913 | 1,262,205 |
| Total liabilities | **774,923** | 1,239,850 | 1,030,362 | 1,060,608 | 522,004 |
| NET ASSETS | **1,264,260** | 1,217,994 | 1,300,975 | 1,155,305 | 740,201 |

## MAJOR PROPERTIES UNDER DEVELOPMENT

| Location | Intended use | Development progress | Expected date of completion | Site area (sq. m.) | Gross floor area (sq. m.) | Group's interest (%) |
|---|---|---|---|---|---|---|
| No. 8 Hunnan West Road and No. 7 Shenying Road, Hunnan New District, Shenyang, Liaoning Province, the People's Republic of China | Residential and Commercial | – Residential units (sales under progress)<br>– Shopping mall (stage 1 completed)<br>– Service apartments (construction-in-progress) | The project is expected to be completed in phases from 2009 onwards | 75,532 | Approximately 455,000 | 70 |