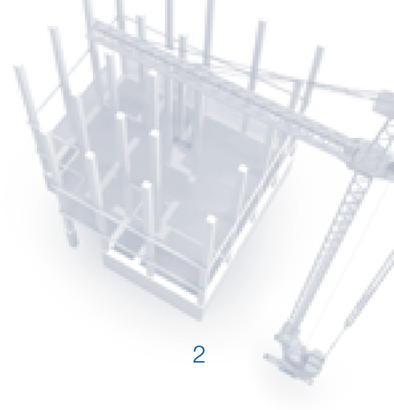
HENGLI PROPERTIES DEVELOPMENT (GROUP) LIMITED
恆力房地產發展（集團）有限公司
(Incorporated in Bermuda with limited liability)
Stock Code: 169

Annual Report 2010



Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Chang Wei *(Chairman and Managing Director)*
Ms. Chan Sheung Ni
Ms. Chen Dongxue

Independent Non-executive Directors

Ms. Lin Wen Feng
Mr. Ma Ving Lung
Mr. Yip King Keung, Pony

AUDIT COMMITTEE

Mr. Ma Ving Lung *(Chairman)*
Mr. Yip King Keung, Pony
Ms. Lin Wen Feng

REMUNERATION COMMITTEE

Mr. Chen Chang Wei *(Chairman)*
Ms. Chen Dongxue
Mr. Ma Ving Lung
Mr. Yip King Keung, Pony
Ms. Lin Wen Feng

NOMINATION COMMITTEE

Mr. Chen Chang Wei *(Chairman)*
Ms. Chen Dongxue
Mr. Ma Ving Lung
Mr. Yip King Keung, Pony
Ms. Lin Wen Feng

COMPANY SECRETARY

Ms. Hui Wai Man, Shirley

PRINCIPAL BANKERS

Chiyu Banking Corporation Limited
China Construction Bank
The Bank of East Asia, Limited

AUDITOR

KPMG

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

Unit 3401, 34th Floor
Tower Two, Lippo Centre
89 Queensway
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

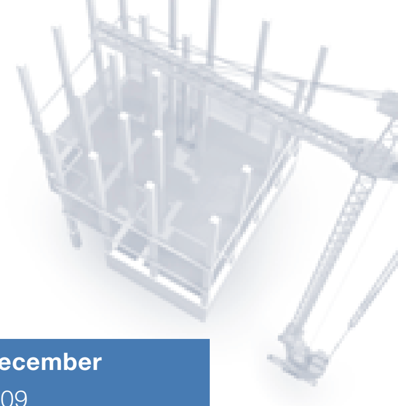
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM 08 Bermuda

HONG KONG PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

169



Financial Highlights

	For year ended 31 December		
	2010	2009	
	HK$'000	HK$'000	Change %
Revenue			
Rental income from investment properties	**3,877**	2,248	+72.5
Sale of properties	**170,502**	423,838	-59.8
Total revenue	**174,379**	426,086	-59.1
(Loss)/profit before taxation	**(69,524)**	146,546	N/A
(Loss)/profit attributable to equity shareholders	**(102,911)**	11,217	N/A
(Loss)/earnings per share — basic	**(HK$0.09)**	HK$0.01	N/A
Cash and bank balances	**554,472**	336,485	+64.8
Total assets	**5,703,955**	4,648,574	+22.7
Total liabilities	**5,293,577**	4,372,374	+21.1
Equity attributable to equity shareholders of the Company	**222,331**	116,908	+90.2
Current ratio	**1.9**	3.6	
Gearing ratio	**84.6%**	88.8%	
Bank borrowings to equity ratio	**643.9%**	1,028.2%	

Chairman's Statement

On behalf of the Board of Directors (the "Board") of the Hengli Properties Development (Group) Limited (the "Company"), I present the annual report of the Company together with its subsidiaries (the "Group") for the year ended 31 December 2010.

RESULTS

During 2010, in order to control the overheating and speculation in the residential property market and to ensure the healthy development of the real estate industry, the Chinese government has implemented a series of tightening policies including increasing the down payment amount for purchase of the second house and restricting loans for the third house, etc. As a result of the government policies on the real estate market, the trading volume of residential properties declined.

Turnover for the Group for 2010 amounted to HK$174.4 million, representing a decrease of 59.1% as compared to HK$426.1 million for 2009. The decrease in the Group's turnover and profit was mainly attributable to the reduction of properties sold. The Group's gross profit ratio for the year is 41.0%, an increase of 10.2% as compared to 30.8% for 2009 due to the rise in selling price of developed properties. The Group recorded a loss attributable to equity holders of the Company of approximately HK$102.9 million for the year ended 31 December 2010.

INCREASE IN LAND BANK

In November 2010 and March 2011, the Group successfully acquired the land use right from the Land and Resource Bureau of Fuzhou City, Fujian Province of two pieces of land with area of approximately 6,875 sq.m. and 42,125 sq.m. respectively for consideration of approximately RMB466 million and RMB1,200 million respectively for commercial property development purpose.

SOCIAL RESPONSIBILITIES

Alongside the Group's development, we always keep in our mind to serve and requite the community. The Group is committed to its social responsibilities of being a good corporate citizen. We made donations to the Special Olympics and to 寧波慈善總會 for various charity programs during 2010. The Group will seek to actively participate in other charitable activities such as those concerning relief activities, environmental protection and medical healthcare.

PROSPECTS

Looking into the year of 2011, it is expected that the tightening policies on the residential real estate market will continue to be enforced, which will further reduce the demand, especially investment demand for residential properties. Compared with the residential property market that is under the government's close monitor, the commercial property market remains nearly unaffected by the policies and may become the major property investment vehicle that attracts investments. Continuity and speeding up of urbanization throughout the country will provide great prospect for the commercial property market. Therefore, we are confident in the prospects of the commercial real estate market in China.

Chairman's Statement

The long-term development strategy of the Group has been to develop high-end, high yield commercial properties and commercial and residential complex in the second-tier and third-tier cities in the PRC. During 2010, thanks to efforts of our management and staffs, the Company made solid progress of its existing property projects, namely Hengli City (恆力城), a commercial and residential complex, and Hengli • Financial Centre (恆力 • 金融中心), a commercial property project. The Company also sought chances to increase land reserve for further development of commercial projects in downtown area of Fuzhou City. In addition, the Company has actively sought business partners such as high-quality and well-known long-term tenants and property management service provider to enhance the value of our properties and the image of the Group. The Company succeeded in expanding its assets and scale and making 2010 a critical year for the Company to lay solid foundation for future development.

In 2011, the Company will adhere to its strategy to develop high-end, high yield commercial properties in the downtown area of Fuzhou City. It will make endeavor to improve the sales of properties as well as the development and construction of high-quality projects to safeguard growth in profitability. In 2011, the Company will put further effort on building the "Hengli" brand name by applying the brand name to all its existing projects and future projects and by promoting the brand name in more marketing activities. When opportunities present, the Company will continue to follow the operation mode of cooperating with high-quality and well-known strategic business partners to bring economic benefits to the Group and to strengthen and enhance the image of the Group. Confronted with the widening gap between supply and demand of investment properties and commercial properties as a whole, we see development potential in the commercial real estate market as well as competitions that may become fierce. The Company will closely monitor the market and will take measures to respond promptly to market changes by adopting creative and innovative strategies. With a solid foundation on property development and a proven track record on property development, the Group will strive to strengthen its position of a high-quality boutique commercial property developer.

ACKNOWLEDGEMENTS

Dear shareholders, we believe that the most difficult time had passed and the Group will resume its upward development trend. The substantial investment and development we made in the past few years shall also bring a new round of satisfactory growth to the Group. On behalf of the Group, I would like to take this opportunity to thank the Directors, our staffs, partners, shareholders and all parties who have rendered their support and contribution to the Group.

Chen Chang Wei
Chairman
28 March 2011

Management Discussion and Analysis

BUSINESS REVIEW

Turnover of the Group for 2010 amounted to HK$174.4 million, representing a decrease of 59.1% as compared to HK$426.1 million for 2009. Included in turnover for 2010 were sales of developed properties and rental income from property letting. Sales of developed properties amounted to approximately HK$170.5 million (2009: HK$423.8 million). The rental income from investment properties amounted to approximately HK$3.9 million (2009: HK$2.2 million). Gross profit of the Group amounted to approximately HK$71.6 million, a decrease of 45.4% as compared to HK$131.2 million for 2009. The Group's gross profit ratio for the year is 41.0%, an increase of 10.2% as compared to 30.8% for 2009. The increase of gross profit ratio was caused by the rise on selling price of developed properties. Loss attributable to equity shareholders amounted to HK$102.9 million as compared to the profit of HK$11.2 million for 2009. The decrease is mainly attributable to i) decrease in gross profit of HK$59.6 million, ii) no reversal of impairment loss on properties under development in 2010, which amounted to HK$125.0 million in 2009, iii) decrease in gain on changes in fair value of investment properties of HK$35.3 million, iv) decrease in income tax expenses of HK$52.8 million.

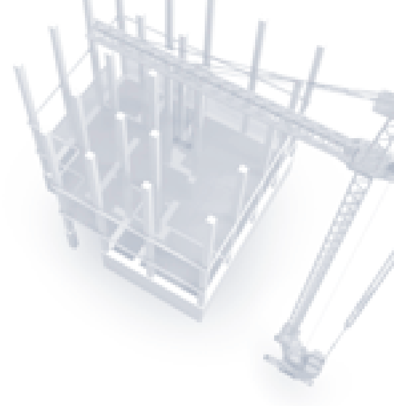
During the year, the Group sold residential and commercial properties with a total gross floor area of 17,687 sq.m. (2009: 70,828 sq.m.), representing a decrease of 75% over last year. The rental income from investment properties was derived from the developed properties in Ningbo. The development of a residential property project named 盛世嘉苑一期, with total gross floor area of 70,615 sq.m, located in Chung Xing Road, Jiangbei District, Ningbo was completed in March 2009. The development of a commercial property project named 姚江新都大廈, with total gross floor area of 35,809 sq.m, located in Hongtang Zhong Road, Jiangbei District, Ningbo, was completed in July 2009. Turnover for the year was mainly generated from saleable properties of these two projects as well as properties held for sales developed in previous years such as Fortune Garden and 盛世桃源 in Ningbo. There was no new project completed in year 2010.

The property named Hengli City (恆力城) located in the financial district of Fuzhou, Fujian Province, is still under development. The property is being developed into a residential, office and retail complex with a total gross floor area of around 241,600 sq.m. Under the current plan, which has been approved by the building authorities, the property will have upon completion one block of 40-storey office building and three blocks of 46-storey residential buildings, commonly erected on top of an 8-storey commercial podium accommodating clubhouse facilities and retail spaces and 3 levels of basement car parking spaces. The project has been launched for pre-sales since September 2009.

The property named Hengli • Financial Centre (恆力 • 金融中心) located in the financial district of Fuzhou, Fujian Province, is also under development. This is a high-end commercial property project with estimated gross floor area of approximately 54,949 sq.m and the construction was commenced in December 2009.

On 2 November 2010, the Group successfully won the bid for a land of approximately 6,875 sq.m. located at south of Yeshan Road (冶山路), originally land of "公正二村", Gulou District, Fuzhou City, Fujian Province, for development of high-end commercial properties named Hengli Prosperity Centre (恆力 • 創富中心) with estimated gross floor area of approximately 51,799 sq.m. The project is estimated to begin construction in June 2011.

Given the proximity of the aforementioned property projects in Fuzhou, the Company is expected to enjoy synergy effect and economies of scale in managing and developing those property projects. The development of these properties will be expected to provide the growth engine for the Group in the next few years.



Management Discussion and Analysis

FINANCIAL REVIEW

Net assets

As at 31 December 2010, the Group recorded total assets and total liabilities of approximately HK$5,704.0 million and HK$5,293.6 million respectively. The Group's net assets value per consolidated balance sheet as at 31 December 2010 increased by approximately HK$134.2 million to approximately HK$410.4 million as compared to approximately HK$276.2 million as at 31 December 2009.

Liquidity and financial ratios

The Group had total cash and bank balances of approximately HK$554.5 million as at 31 December 2010 as compared with HK$336.5 million as at 31 December 2009. As at 31 December 2010, the current ratio was 1.9 as compared with 3.6 as at 31 December 2009. The gearing ratio was 84.6% as at 31 December 2010 as compared with 88.8% as at 31 December 2009. The bank borrowings to equity attributable to equity shareholders of the Company ratio was 643.9% as at 31 December 2010 as compared with 1,028.2% as at 31 December 2009.

Borrowings

The Group had interest bearing bank borrowings of approximately HK$1,431.7 million as at 31 December 2010 (31 December 2009: HK$1,202.0 million), representing an increase of approximately 19.1% over the amount as at 31 December 2009. Borrowings were denominated in Renminbi ("RMB") and Hong Kong dollar ("HK$").

Approximately 88.3% of the borrowings is repayable within one year of which 20% is secured by cash deposit. The rest representing the bank loans repayable after one year of HK$167.6 million. The Company is confident in meeting its loan repayment obligations with its cash and bank deposits and proceeds from pre-sales and sale of its projects.

The Group had aggregate net carrying amount of convertible bonds of approximately HK$1,368.8 million (principal amount of approximately HK$2,347.7 million) as at 31 December 2010.

Foreign currency exposure

Other than financing activities of borrowings denominated in HK$, the Group conducts its business almost exclusively in RMB. Thus the Group is exposed to foreign exchange risk arising from the exposure of RMB against HK$. The Directors do not anticipate any significant foreign exchange loss as a result of changes in exchange rate between RMB and HK$ in the foreseeable future. The Directors also consider that there will be sufficient cash resources denominated in both RMB and HK$ for repayment of its borrowings. During the year, the Group did not use any financial instrument for hedging purposes and the Group did not have hedging instrument outstanding as at 31 December 2010.

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 31 December 2010, the Group pledged certain of its property, plant and equipment, prepaid lease payments, properties under development and restricted bank deposits to banks in the PRC to secure the bank loans of approximately HK$1,431.7 million (2009: HK$1,128.1 million) granted by these banks.

The aggregate carrying value of the property, plant and equipment, prepaid lease payments, properties under development and restricted bank deposits as at 31 December 2010 amounted to approximately HK$1.6 million HK$8.1 million, HK$3,648.9 million and HK$344.6 million (31 December 2009: HK$1.5 million, HK$8.2 million, HK$3,130.4 million and HK$198.5 million) respectively.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group provided guarantees of approximately HK$392.7 million (2009: HK$105.2 million) to banks in favor of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group's developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificates of the respective properties by the banks from the customers as a pledge for security to the mortgage loan granted. As at 31 December 2010, no provision for the Group's obligation under these guarantee contracts has been made as the directors considered that it was not probable that the repayment of these loans would be in default.

The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

MATERIAL ACQUISITION AND DISPOSAL

For the year ended 31 December 2010, the Company had no material acquisition or disposal of subsidiaries and affiliated companies.

Subsequent to 31 December 2010, on 3 March 2011 the Company entered into a conditional agreement to dispose of the entire equity interest in Right Strong Holdings Limited, the Company's wholly owned subsidiary, for a consideration of approximately HK$149.9 million (subject to adjustment).

CAPITAL STRUCTURE

On 8 December 2010, the rights issue on the basis of one rights share for every existing share was approved by the independent shareholders of the Company by way of poll at a special general meeting of the Company. The rights issue was completed on 3 January 2011 and 1,118,507,000 shares were issued at the subscription price of HK$0.10 per share on that date.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group employed approximately 124 full time staffs in the PRC and Hong Kong.

The Group remunerates its employees based on their performance, experience and prevailing market price while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidised educational and training programs.

OUTLOOK

During 2010, in order to control the overheating and speculation in the residential property market and to ensure the healthy development of the real estate industry, the Chinese government has implemented a series of tightening policies including increasing the down payment amount for purchase of the second house and restricting loans for the third house. Furthermore, in December 2010, Shanghai and Chongqing were designated as the pilot cities for collection of property tax, which reflected the government's effort to enforce its control on the residential property market.

Looking into the year of 2011, it is expected that the tightening policies will continue to be enforced, which will further reduce the demand, especially investment demand for residential properties. Compared with the residential property market that is under the government's close monitor, the commercial property market remains nearly unaffected by the policies and may become the major property investment vehicle that attracts tremendous investment. Continuity and speeding up of urbanization throughout the country will provide great prospect for the commercial property market. Therefore, we expect to see an increase in commercial property price.

The long-term development strategy of the Group has been to develop high-end, high yield commercial properties and commercial and residential complex in the second-tier and third-tier cities in the PRC. As at 31 December 2010, the Group had properties under development of approximately HK$3,951 million (at carrying value) in Fuzhou city, consisting of Hengli City (恒力城), which is being developed into a commercial and residential complex, Hengli • Financial Centre (恒力 • 金融中心) and Hengli • Prosperity Centre (恒力 • 創富中心), which are being developed into high-end commercial properties. Residential, office and parking area of Hengli City is being pre-sold and the sale will continue in 2011 and 2012. On 18 January 2011, the Group entered into a long-term lease agreement to lease the 8-storey commercial podium of Hengli City (恒力城) to Beijing Wangfujing Department Store (Group) Co. Ltd. (北京王府井百貨(集團)股份有限公司), a large retail department store group listed on the Shanghai Stock Exchange. The lease is expected to bring to the Group considerable rental income over the long run. The Group also expects that Hengli • Financial Centre (恒力 • 金融中心) and Hengli • Prosperity Centre (恒力 • 創富中心) will contribute income from pre-sale from the first half of 2011 and 2012 respectively.

On 15 March 2011, the Group further acquired the land use right of a parcel of land with an area of approximately 42,125 square meters in Fuzhou. The land is near the Group's three aforementioned projects in Fuzhou. The Group plans to develop the land into high-end commercial properties with residential building with an estimated gross floor area of 259,190 sq.m.

Given the proximity of the aforementioned projects in Fuzhou, the Company would likely to enjoy synergy effect and economies of scale in managing and developing those property projects. The development of these properties are expected to provide the growth engine for the Group in the next few years. Going forward, the Group will continue to grasp desirable opportunities in the future to increase its landbank and will further seize opportunities to develop, sell and lease high-end commercial properties in Fujian Province and in other second-tier and third-tier cities in the PRC to provide satisfactory return to the Group.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Chen Chang Wei ("Mr. Chen"), aged 48, joined the Group on 22 January 2008. Mr. Chen is currently the Chairman and Managing Director of the Company. He is responsible for the overall strategic planning and formulation of the corporate policies of the Group. Mr. Chen graduated from Department of Civil Engineering in Huaqiao University, the People's Republic of China (the "PRC"). He holds a Bachelor Degree of Civil Engineering. Mr. Chen has over 20 years of experience in investment, industrial and commercial sectors and real estate development. Mr. Chen is the husband of Ms. Chan Sheung Ni and brother of Ms. Chen Dongxue. Both Ms. Chan and Ms. Chen are executive directors of the Company.

Ms. Chan Sheung Ni ("Ms. Chan"), aged 46, joined the Group on 1 February 2008, is responsible for corporate planning. Ms. Chan has over 15 years of experience in investment, industrial and commercial sectors and real estate development. Ms. Chan is the wife of Mr. Chen Chang Wei, the Chairman and Managing Director of the Company. She is also the sister-in-law of Ms. Chen Dongxue, the executive director of the Company.

Ms. Chen Dongxue ("Ms. Chen"), aged 40, joined the Group on 15 February 2008. She is mainly responsible for the management of the Group's PRC operations. Ms. Chen graduated from Department of International Finance and Financial Economics in Xiamen University, the PRC. She holds a Bachelor Degree of Economics. Ms. Chen has over 15 years of experience in investment, industrial and commercial sectors and real estate development. Ms. Chen is the sister of Ms. Chen Chang Wei, the Chairman and Managing Director of the Company. She is also the sister-in-law of Ms. Chan Sheung Ni, the executive director of the Company.

Independent Non-executive Directors

Ms. Lin Wen Feng, aged 42, was appointed as an Independent Non-executive Director on 15 October 2007. Ms. Lin graduated from the Xiamen University with a Master Degree of Laws. She passed the National Judicial Examination in People's Republic of China in 1992 and has 14 years' practicing experience as a solicitor, which involved in corporate, finance and conveyancing sections.

Mr. Ma Ving Lung, aged 41, was appointed as an Independent Non-executive Director on 30 November 2007. Mr. Ma graduated from York University, Ontario, Canada. He holds a Bachelor Degree of Accountancy with Honors and was qualified as an accountant in USA in 2000. Mr. Ma became an associate member of Hong Kong Institute of Certified Public Accountant in 2000. He has worked for a number of listed companies and has extensive experience in initial public offerings.

Mr. Yip King Keung, Pony, aged 41, was appointed as an Independent Non-executive Director on 14 January 2008. Mr. Yip holds a Bachelor of Business Administration (Honors) from York University, Ontario, Canada. Mr. Yip has more than 10 years experience in the field of business management and property investment.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Hui Wai Man, Shirley, aged 43, joined the Group in December 2000. She is responsible for the company secretarial affairs of the Group. Ms. Hui has over 20 years of professional experience in public accounting and corporate finance. She is a fellow member of The Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She is also a member of the Society of Chinese Accountants and Auditors and Hong Kong Securities Institute.

Ms. Wu Weilan, Martine, aged 33, joined the Group in August 2009. She is the Company's chief financial officer and is responsible for the financial management of the Group. Ms. Wu holds a Master of Business Administration degree from Paris Graduate School of Management, France and a Bachelor of Law degree from Guangdong University of Foreign Studies, PRC. Ms. Wu was qualified as Certified Public Accountant in the USA in 2009. Prior to joining the Group, Ms. Wu has over 7 years' experience in public accounting.

Directors' Report

The directors present the annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in commercial property and office letting, sales of developed properties and investment holdings in the People's Republic of China (the "PRC") and in Hong Kong.

The principal activities of the Group's subsidiaries are set out in note 17 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 30.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2010.

SEGMENT INFORMATION

The Group's revenue and results analyzed by segments are set out in note 12 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 101. This summary does not form part of the audited financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

Directors' Report

SHARE CAPITAL

Details of the share capital of the Company are set out in note 32 to the financial statements.

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out on note 32 to the financial statements respectively.

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were as follows:

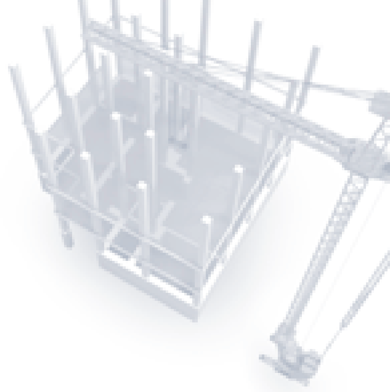
Executive directors:
Mr. Chen Chang Wei *(Chairman and Managing Director)*
Ms. Chan Sheung Ni
Ms. Chen Dongxue

Independent non-executive directors:
Ms. Lin Wen Feng
Mr. Ma Ving Lung
Mr. Yip King Keung, Pony

In accordance with clause 99 of the Bye-Laws of the Company, Ms. Chan Sheung Ni and Ms. Chen Dongxue will retire and, being eligible, will offer themselves for re-election at the Annual General Meeting.

Mr. Chen Chang Wei, Ms. Chan Sheung Ni and Ms. Chen Dongxue have a service contract with the Company for a fixed term of 2 years, which may be terminated, by either side, on 6 month's notice.

The term of office for each non-executive director is the period up to his/her retirement by rotation in accordance with the Company's Bye-Laws.



DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2010, the interests of the directors and their associates in the ordinary shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position in ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Chen Chang Wei	Beneficial owner and held by controlled corporation (1)	272,747,000	24.38%
Ms. Chan Sheung Ni	Beneficial owner (2)	300,000	0.03%
Ms. Chen Dongxue	Beneficial owner (3)	43,774,000	3.91%

(1) As at 31 December 2010, Mr. Chen Chang Wei ("Mr. Chen") was deemed to be interested in 272,747,000 shares of the Company, of which (1) 4,570,000 shares were directly held by Mr. Chen, (2) 86,000,000 shares were held in trust for him by Ever Good Luck Limited (a company incorporated in the British Virgin Islands ("BVI") of which the entire issued share capital is beneficially owned by Mr. Chen), and (3) 182,177,000 shares were beneficially owned by Ever Good Luck Limited.

(2) Ms. Chan Sheung Ni is the spouse of Mr. Chen and sister-in-law of Ms. Chen Dongxue.

(3) Ms. Chen Dongxue is the sister of Mr. Chen and sister-in-law of Ms. Chan Sheung Ni.

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2010.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

There was no share option scheme during the year ended 31 December 2010.

There were no new shares options granted during the year and outstanding as of 31 December 2010.

Other than as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors nor chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2010, the following persons or corporations (other than a Director or Chief Executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and so far as is known to any Director or Chief Executive of the Company.

Name	Long position/ Short position	Capacity/ Nature of interest	Number of shares held	Approximate percentage of shareholding
Ever Good Luck Limited	Long	Beneficial interest (1)	182,177,000	16.29%
New Double Good Limited	Long	Beneficial interest (2)	200,000,000	17.88%
Glories Structure Limited	Long	Beneficial interest (3)	170,000,000	15.2%
Golden Mount Limited	Long	Beneficial interest (4)	137,430,000	12.29%

(1) Ever Good Luck Limited is a company incorporated in the BVI, the entire issued share capital of which is ultimately held by Mr. Chen Chang Wei.

(2) New Double Good Limited is a company incorporated in the BVI.

(3) Glories Structure Limited is a company incorporated in the BVI.

(4) Golden Mount Limited is a company incorporated in the BVI.

Save as disclosed above, as at 31 December 2010, no person, other than the director and his associated corporations stated under the paragraph headed “Directors' interests in securities” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of SFO.

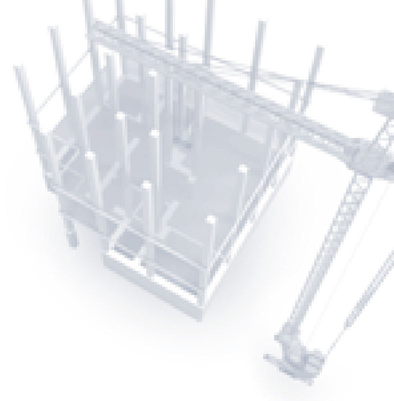
CONNECTED TRANSACTIONS

Connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) are disclosed in note 36 to the financial statement.

DIRECTORS' INTERESTS IN CONTRACTS

On 29 September 2010, the Company entered into an underwriting agreement with Ever Good Luck Limited for underwriting a maximum number of 845,769,000 rights shares. Ever Good Luck Limited is a company incorporated in the BVI and whose entire issued share capital is wholly and beneficially owned by Mr. Chen Chang Wei, a director of the Company.

Save as disclosed above, no other contract of significance, to which the Company or any of its holding companies 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 contracts for management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the year.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were more than 41% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 27% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 73% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 53% of the Group's total purchases.

None of the directors, their associates or any shareholder, which to the knowledge of the directors own more than 5% of the Company's issued share capital, had any interest in the five largest customers or suppliers of the Group.

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

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

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2010 except for deviations in (i) the independent non-executive directors of the Company are not appointed for a specific term and (ii) the role of chairman and chief executive officer are performed by the same individual.

CORPORATE GOVERNANCE *(Continued)*

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Rules Governing the Listing of Securities of the Stock Exchange (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code/the required standard of dealing and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange.

The Company considers all of the independent non-executive directors are independent.

AUDIT COMMITTEE

The consolidated financial statements for the year ended 31 December 2010 has been reviewed by the Audit Committee. Information on the work of Audit Committee and its composition are set out in Corporate Governance Report on pages 24 to 25 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2010.

DONATIONS

During the year, the Group has made charitable donations of HK$253,858. (2009: HK$335,812).

AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the annual general meeting of the Company to re-appoint KPMG as auditor of the Company.

On behalf of the Board

CHEN CHANG WEI
Chairman

Hong Kong, 28 March 2011

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board of Directors of the Company (the "Board") believes that good corporate governance is essential for the effective management, a healthy corporate culture and balancing of business risk. And it is also essential to the success of the Company and the enhancement of shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2010, except for deviations from Code Provision A.4.1 (tenure of non-executive directors) and Code A.2.1 (Separate of roles of chairman and chief executive officer) as explained in the relevant paragraphs in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard as set out in Model Code during the year ended 31 December 2010.

THE BOARD OF DIRECTORS

The Board currently comprises six Directors, including three Executive Directors and three Independent Non-executive Directors. All three Non-Executive Directors are Independent Non-Executive Directors which represent half of the Board. And its composition of the Board during the year ended 31 December 2010 and up to the date of this report is set out as follows:

Executive Directors:
Mr. Chen Chang Wei *(Chairman and Managing Director)*
Ms. Chan Sheung Ni
Ms. Chen Dongxue

Independent Non-executive Directors ("INED"):
Ms. Lin Wen Feng
Mr. Ma Ving Lung
Mr. Yip King Keung, Pony

The brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section on pages 11 to 12. Except for Ms. Chan Sheung Ni, who is the wife of Mr. Chen Chang Wei, and Ms. Chen Dongxue, who is the sister of Mr. Chen Chang Wei, there is no financial, business, or other material/relevant relationship amongst the Directors.

Corporate Governance Report

BOARD PRACTICE

The Board is collectively and ultimately responsible for how the Company is managed, its strategic direction and performance. The Board meets to plan, decide and review these matters, which resolutions are put to a vote. In particular, approval of the Board is required for adopting the strategy of the Group from time to time, major acquisitions and disposals of the Group, major capital investments, dividend policy and recommendation, appointment and retirement of Directors and senior management, their remuneration policy and other major operations and financial matters. Day-to-day operations of the Group and implementation of the Board's decisions and strategy are delegated to the company's management team.

The Chairman, assisted by the Company Secretary, has ensured that the Board adheres strictly to all rules and requirements for its meetings and the maintenance of full and proper records. Procedures are established for every director to have access to board papers and related information, to have the services of the Company Secretary, and to seek independent professional advice at the Company's expense upon reasonable request.

The Board acknowledges their responsibilities for the preparation of the financial statements of the Company and ensures that they are prepared in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publications of such financial statements.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, thirteen Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings Attended/held
Executive Directors:	
Mr. Chen Chang Wei *(Chairman and Managing Director)*	10/11
Ms. Chan Sheung Ni	7/11
Ms. Chen Dongxue	4/11
INEDs:	
Ms. Lin Wen Feng	7/11
Mr. Ma Ving Lung	5/11
Mr. Yip King Keung, Pony	9/11

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established in writing.

In place with the business development and growth of the Group, the Group currently maintains a small but efficient team in the daily operations of the Group. Due to the small size of the team, both the roles of the Chairman and Managing Director of the company are currently played by Mr. Chen Chang Wei. The Board considers the currently simple but efficient team serves sufficiently enough the need of the Group. The Board will, nonetheless, review into business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the day-to-day management team to ensure a proper balance of power and authority within the Company.

The Board currently comprises three Executive Directors (one of whom is the Chairman and Managing Director), and three Independent Non-executive Directors. Mr. Chen took the role of Chairman and Managing Director from January 2008. He is primarily responsible for leadership of the Board, ensuring the effectiveness in all aspects of its role and for setting its agenda, whereas clearly established executive responsibilities for running of the business of the Group lie with difference designated senior executives. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board and a clear division of responsibility for the running of the business of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors provide the Group with a wide range of expertise and experience. Their active participation in Board and committee meetings brings independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders.

The Company has three INEDs representing over one-third of the Board. One of the INEDs has appropriate accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his/her independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Code Provision A.4.1 stipulates that Non-executive Directors should be appointed for a specific term, subject for re-election. None of the existing Non-executive Directors are appointed for a specific term. However, all the Non-Executive Directors shall be subject to retirement by rotation under "Appointment and Re-election of Directors" in accordance with the Company's Bye-Laws mentioned as in below paragraph. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In June 2005, the Board has established and adopted a written nomination procedure (the "Nomination Procedure") specify the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment etc.), identify and recommend the proposed candidate to the Board for approval of an appointment.

New Directors, on appointment, will be given an induction package containing all key legal and Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board. The senior management will subsequently conduct such briefing as is necessary to give the new Directors more detailed information on the Group's business and activities.

The Non-executive Directors of the Company had no fixed term of office, but retired from office on a rotational basis in accordance with the relevant provisions of the Company's Bye-laws. According to Provision 99 of the Bye-Laws of the Company, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation save any Director holding office as Chairman or Managing Director. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election. The Company at any general meeting at which any Directors retire may fill the vacated offices. Further, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting and should then be eligible for re-election at the meeting.

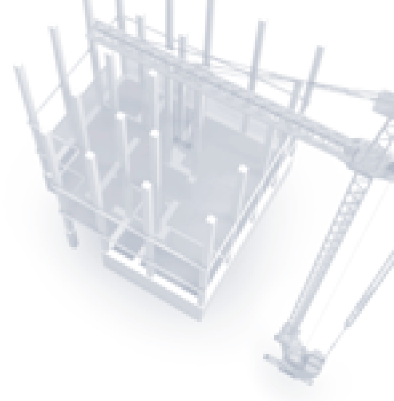
During the year, no amount was paid or payable by the Company to the Directors or any of the 5 highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee, an Audit Committee and a Nomination Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 20 in the section "The Board Practice" above, have been adopted for the committee meetings so far as practicable.

Remuneration Committee

The Remuneration Committee currently consists of five members, including Mr. Chen Chang Wei (Chairman), Ms. Chen Dongxue, Mr. Ma Ving Lung, Mr. Yip King Keung, Pony and Ms. Lin Wen Feng, three of whom are INEDs. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.



BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The major roles and functions of the Remuneration Committee are:

(i) to review and recommend to the Board the remuneration policy and packages of the Directors and, where appropriate, to consult the Chairman and/or the Managing Director about the committee's proposals relating to the remuneration of other Executive Directors;

(ii) to review and recommend performance-based remuneration by reference to corporate goals and objectives approved by the Board from time to time;

(iii) to review and recommend the compensation payable to Executive Directors relating to any loss or termination of their office or appointment;

(iv) to review and recommend compensation arrangements relating to dismissal or removal of Directors for misconduct; and

(v) to ensure that no Director is involved in deciding his own remuneration.

The terms of reference of the Remuneration Committee of the Company were adopted in June 2005 to comply with the Code Provision B.1.3, but with a deviation from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of Executive Directors only and not senior management for the following reasons:

(i) The Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior management and that this evaluation process is more effectively carried out by the Executive Directors;

(ii) Over half of the Remuneration Committee members consist of INEDs who may not be industry skilled and come from differing professions and backgrounds and they are not involved in the daily operation of the Company. They may have little direct knowledge of industry practice and standard compensation packages. The Remuneration Committee is thus not in a position to properly determine the remuneration of the Executive Directors;

(iii) The Executive Directors must be in a position to supervise and control senior management and thus must be able to control their compensation; and

(iv) There is no reason for Executive Directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The Remuneration Committee shall meet at least once a year. Two committee meetings was held in 2010 to review and discuss the existing policy and structure for the remuneration of Directors, the remuneration packages of both the Executive and Non-executive Directors. The attendance of each member is set out as follows:

Committee member	Number of Committee meeting attended/held
Mr. Chen Chang Wei *(Chairman)*	2/2
Ms. Chen Dongxue	2/2
Mr. Ma Ving Lung	2/2
Mr. Yip King Keung, Pony	2/2
Ms. Lin Wen Feng	2/2

Details of the Directors' remuneration are set out in note 7 to the financial statements.

Audit Committee

The Audit Committee has been established since May 2002 and currently consists of three Independent Non-Executive Directors. To retain independence and objectivity, the Audit Committee is chaired by an INED with appropriate professional qualifications or accounting or related financial management expertise. The current members of the Audit Committee are Mr. Ma Ving Lung (Chairman), Mr. Yip King Keung, Pony and Ms. Lin Wen Feng. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The major roles and functions of the Audit committee are:

(i) to consider and recommend to the Board on the appointment, re-appointment and removal the external auditors;

(ii) to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors;

(iii) to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commencement;

(iv) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(v) to review the interim and annual financial statements, interim and annual reports before submission to the Board;

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

(vi) to develop and implement policy on the engagement of the external auditor to supply non-audit services;

(vii) to review the Group's financial and accounting policies and practices;

(viii) to review the external auditors' management letters, any material queries raised by the auditor to management in respect of accounting records, financial accounts or system of control and management's response and to ensure the Board will provide a timely response to the issue raised;

(ix) to review the Groups' financial controls, internal control and risk management systems; and ensure that the management has discharged its duty to have an effective internal control system;

(x) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to monitor the effectiveness of the internal audit function; and

(xi) to consider any findings of major investigations of internal control matters as delegated by the Board and or on its own initiative and management's response.

The Audit Committee has explicit authority to investigate into any matter under the scope of its duties and the authority to obtain independent professional advice. It is given full access and assistance from management and reasonable resources to discharge its duties properly. At least once annually, the Audit Committee will meet the external auditors.

The Audit Committee will meet at least twice each year. In 2010, the Audit Committee met two times considering the annual results of the Group for the financial year ended 31 December 2009 and the interim results of the Group for the 6 month ended 30 June 2010, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and reviewing the connected transactions of the Group. Attendance records of the Audit Committee members in 2010 are as follows:

Committee member	Number of Committee meetings attended/held
Mr. Ma Ving Lung *(Chairman)*	2/2
Mr. Yip King Keung, Pony	2/2
Ms. Lin Wen Feng	2/2

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with the support from finance department, the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group. The Directors also confirm that, to the best of their knowledge, information and belief, having made all reasonable enquires, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as going concern.

The report of the Company's external auditor, KPMG, and their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 28 and 29.

External Auditor's Remuneration

During the year, the remuneration paid/payable to the Company's external auditor, KPMG is set out as follows:

Services rendered for the Group	Fee paid/payable HK$'000
Audit services	762
Non-audit services	760

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal controls includes a defined management structure with limit authority, is designed to help the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provisions of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives. The Board has conducted review of the system of internal control of the Group during the year ended 31 December 2010.

Nomination Committee

The Nomination Committee has been established since June 2005. It currently consists of five members, including Mr. Chen Chang Wei (Chairman), Ms. Chen Dongxue, Mr. Ma Ving Lung, Mr. Yip King Keung, Pony and Ms. Lin Wen Feng, three of whom are INEDs. The Nomination Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

INTERNAL CONTROL *(Continued)*

Nomination Committee *(Continued)*

The major roles and functions of the Nomination Committee are:

(i) to review the structure, size and composition of the Board on a regular basis;

(ii) to review and recommend the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive officer.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The Company's annual general meeting (the "AGM") is a valuable forum for the Board to communicate directly with the shareholders. The Chairman actively participates in the AGM and personally chairs the meeting to answer any questions from the shareholders. A separate resolution is proposed by the Chairman in respect of each issue to be considered at the AGM. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each propose resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the AGM, and (except where a poll is demanded) reveals how many proxies for and against have been received in respect of each resolution.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders are also welcome to promote our transparency.

On behalf of the Board

Chen Chang Wei
Chairman

Hong Kong, 28 March 2011

Independent Auditor's Report

KPMG

Hengli Properties Development (Group) Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Hengli Properties Development (Group) Limited ("the Company") and its subsidiaries (together the "Group") set out on pages 30 to 100, which comprise the consolidated and company balance sheets as 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 cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

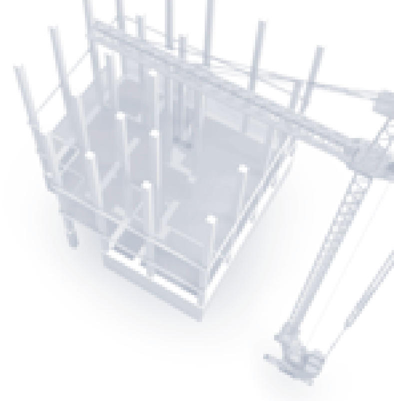
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability 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 as to 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 auditor's 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 auditor considers internal control relevant to the entity's preparation of the 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, 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.

Independent Auditor's Report



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 as at 31 December 2010 and of the Group's consolidated loss 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 March 2011

Consolidated Income Statement

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Turnover	3	**174,379**	426,086
Cost of properties sold	5(c)	**(102,816)**	(294,902)
		71,563	131,184
Other revenue and net income	4	**25,685**	29,256
Valuation gain on investment properties		**9,152**	44,497
Selling expenses		**(18,882)**	(24,278)
Administrative expenses		**(36,353)**	(29,738)
Reversal of write down of properties under development		**–**	125,000
Profit from operations		**51,165**	275,921
Finance costs	5(a)	**(120,689)**	(129,375)
(Loss)/profit before taxation	5	**(69,524)**	146,546
Income tax expense	6(a)	**(10,256)**	(63,070)
(Loss)/profit for the year		**(79,780)**	83,476
Attributable to:			
Equity shareholders of the Company		**(102,911)**	11,217
Non-controlling interests		**23,131**	72,259
(Loss)/profit for the year		**(79,780)**	83,476
(Loss)/earnings per share	11		
Basic		**($0.09)**	$0.01
Diluted		**N/A**	N/A

The notes on pages 37 to 100 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
(Loss)/profit for the year		**(79,780)**	83,476
Other comprehensive income for the year (after tax adjustments):			
Exchange differences on translation of financial statements of subsidiaries in the mainland of the People's Republic of China (the "PRC")		**108,533**	(864)
Surplus on revaluation of property, plant and equipment		**321**	1,609
	10	**108,854**	745
Total comprehensive income for the year		**29,074**	84,221
Attributable to:			
Equity shareholders of the Company		**(2,602)**	11,810
Non-controlling interests		**31,676**	72,411
Total comprehensive income for the year		**29,074**	84,221

The notes on pages 37 to 100 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current assets			
Fixed assets			
— Investment properties	13	**101,771**	88,105
— Property, plant and equipment	14	**18,540**	18,255
Prepaid lease payments	15	**28,492**	28,509
Goodwill	16	**99,861**	95,782
Available-for-sale investment	18	**2,368**	2,272
Loan to a director	19	**—**	295,129
Deferred tax assets	31(b)	**4,397**	8,838
		255,429	536,890
Current assets			
Properties under development	20	**4,090,776**	3,571,790
Properties held for sales	21	**108,229**	167,440
Deposits for land use right purchase		**222,554**	—
Trade and other receivables	22	**93,216**	31,420
Loan to a director	19	**324,543**	—
Tax prepayments	31(a)	**54,736**	4,549
Restricted bank deposits	23	**344,637**	198,508
Cash at bank and in hand	24	**209,835**	137,977
		5,448,526	4,111,684
Current liabilities			
Trade and other payables	25	**374,261**	383,938
Receipts in advance	26	**1,082,012**	394,353
Promissory notes	27	**—**	60,000
Bank loans	28	**1,264,082**	207,313
Current taxation	31(a)	**80,082**	87,322
		2,800,437	1,132,926
Net current assets		**2,648,089**	2,978,758
Total assets less current liabilities		**2,903,518**	3,515,648

Consolidated Balance Sheet

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current liabilities			
Bank loans	28	**167,584**	994,705
Convertible bonds	29	**1,368,839**	1,267,706
Deferred tax liabilities	31(b)	**956,717**	977,037
		2,493,140	3,239,448
NET ASSETS		**410,378**	276,200
CAPITAL AND RESERVES			
Share capital	32	**111,851**	111,851
Accumulated losses		**(484,779)**	(381,868)
Other reserves		**595,259**	386,925
Total equity attributable to equity shareholders of the Company		**222,331**	116,908
Non-controlling interests		**188,047**	159,292
TOTAL EQUITY		**410,378**	276,200

Approved and authorised for issue by the board of directors on 28 Marc 2011

Chen Chang Wei
Chairman

Chan Sheung Ni
Executive Director

The notes on pages 37 to 100 form part of these financial statements.

Balance Sheet

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current assets			
Investments in subsidiaries	17	**1,705,241**	1,705,241
Current assets			
Other receivables	22	**442,812**	286,965
Cash at bank and in hand	24(a)	**6,763**	998
		449,575	287,963
Current liabilities			
Other payables	25	**331,571**	259,940
Promissory notes	27	**—**	60,000
Short-term loans	28	**50,000**	—
		381,571	319,940
Net current assets/(liabilities)		**68,004**	(31,977)
Total assets less current liabilities		**1,773,245**	1,673,264
Non-current liabilities			
Convertible bonds	29	**1,368,839**	1,267,706
NET ASSETS		**404,406**	405,558
CAPITAL AND RESERVES			
Share capital	32	**111,851**	111,851
Reserves		**292,555**	293,707
TOTAL EQUITY		**404,406**	405,558

Approved and authorised for issue by the board of directors on 28 March 2011

Chen Chang Wei
Chairman

Chan Sheung Ni
Executive Director

The notes on pages 37 to 100 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(Expressed in Hong Kong Dollars)

		Attributable to equity shareholders of the Company											
	Note	Share capital $'000	Share premium $'000	Prepaid share reserve $'000	Capital reserve $'000	Special reserve $'000	Exchange reserve $'000	Property revaluation reserve $'000	Convertible bonds equity reserve $'000	Accumulated losses $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2009		109,251	192,231	–	3,038	44,144	4,548	867	137,527	(355,664)	135,942	88,850	224,792
Changes in equity for 2009:													
Profit for the year		–	–	–	–	–	–	–	–	11,217	11,217	72,259	83,476
Other comprehensive income	10	–	–	–	–	–	(11)	604	–	–	593	152	745
Total comprehensive income		–	–	–	–	–	(11)	604	–	11,217	11,810	72,411	84,221
Convertible bonds exercised	32(b)	2,600	4,734	–	–	–	–	–	(757)	–	6,577	–	6,577
Deemed distribution		–	–	–	–	–	–	–	–	(37,421)	(37,421)	(1,969)	(39,390)
Balance at 31 December 2009 and 1 January 2010		111,851	196,965	–	3,038	44,144	4,537	1,471	136,770	(381,868)	116,908	159,292	276,200
Changes in equity for 2010:													
Profit for the year		–	–	–	–	–	–	–	–	(102,911)	(102,911)	23,131	(79,780)
Other comprehensive income	10	–	–	–	–	–	100,164	145	–	–	100,309	8,545	108,854
Total comprehensive income		–	–	–	–	–	100,164	145	–	(102,911)	(2,602)	31,676	29,074
Rights issue of shares	32(c)(iii)	–	(3,826)	111,851	–	–	–	–	–	–	108,025	–	108,025
Dividends approved		–	–	–	–	–	–	–	–	–	–	(2,921)	(2,921)
Balance at 31 December 2010		111,851	193,139	111,851	3,038	44,144	104,701	1,616	136,770	(484,779)	222,331	188,047	410,378

The notes on pages 37 to 100 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Operating activities			
Cash generated from operations	24(b)	**87,304**	62,579
Tax paid		**(87,356)**	(12,574)
Net cash (used in)/generated from operating activities		**(52)**	50,005
Investing activities			
Payment for the purchase of property, plant and equipment		**(58)**	(1,208)
Proceeds from sale of property, plant and equipment		**261**	839
Dividends received from available-for-sale investment		**478**	610
Interest received		**5,160**	833
Increase in restricted bank deposits		**(146,129)**	(198,508)
Net cash used in investing activities		**(140,288)**	(197,434)
Financing activities			
Issue of shares net of directly attributable expenses		**108,025**	—
Interest paid		**(67,332)**	(58,352)
Advances from non-controlling equity holders of subsidiaries		**4,325**	287
Repayment of promissory notes		**(60,000)**	(50,000)
Proceeds from new bank loans		**306,806**	479,734
Repayment of bank loans		**(77,158)**	(171,194)
Dividends paid to non-controlling equity holders of a subsidiary		**(4,771)**	(2,728)
Net cash generated from financing activities		**209,895**	197,747
Net increase in cash and cash equivalents		**69,555**	50,318
Cash and cash equivalents at 1 January		**137,977**	88,915
Effect of foreign exchange rate changes		**2,303**	(1,256)
Cash and cash equivalents at 31 December	24(a)	**209,835**	137,977

The notes on pages 37 to 100 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

— derivative financial instruments (see note 1(f));

— investment property (see note 1(g)); and

— leasehold land and buildings (see note 1(h)).

The preparation of 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

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 periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 37.

The directors are of the opinion that, after careful consideration of liquidity requirement and cashflow forecasts of the Group, and taking account of the effect of the financial support from a shareholder, it is appropriate to prepare the consolidated financial statements on a going concern basis. The directors have concluded that the Company would have sufficient working capital to finance its operations in the next 12 months and remain as a going concern.

(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 its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated 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 (previously known as “minority interests”) represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary’s net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the balance sheet in accordance with notes 1(m), (n) or (o) depending on the nature of the liability.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests *(Continued)*

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)).

(d) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(j)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Other investments in equity securities

Investments in equity securities that do not have quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(j)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured.

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(i)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

After initial recognition, investment property is carried at fair value. Property that is being constructed or developed for future use as investment property is classified as investment property under development. If the fair value cannot be reliably determined, the investment property under development will be measured at cost until such time as fair value can be determined or construction is completed. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed periodically by independent valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

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. Rental income from investment properties is accounted for as described in note 1(t)(ii).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Investment properties *(Continued)*

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 were held under a finance lease (see note 1(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(i).

For a transfer from properties under development or completed properties held for sale to investment properties, any difference between the fair value of the property at that date and its then carrying amount is recognised in profit or loss.

(h) Property, plant and equipment

Freehold land and buildings held for own use are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the end of reporting period.

Other items of plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)).

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

The cost of self-constructed items of property, plant and equipment comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 1(v)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Property, plant and equipment *(Continued)*

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits/accumulated losses and is not reclassified to profit or loss. Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 to 50 years

— Leasehold improvements	5 years or over the lease term whichever is shorter
— Furniture, fixtures and equipment	5 to 10 years
— Motor vehicles	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) 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.

(i) Classification of assets leased to the Group

Assets that are held by the 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, with the following exceptions:

— property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)); and

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Leased assets *(Continued)*

(ii) Assets acquired under finance leases

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, 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.

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments 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 assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss 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 (see note 1(g)) or is held for development for sale (see note 1(k)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables *(Continued)*

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as 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 (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts);

— pre-paid interests in leasehold land classified as being held under an operating lease;

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 generate cash inflows independently (i.e. a cash generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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 profit or loss in the year in which the reversals are recognised.

(iii) 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 (see notes 1(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(k) Inventories

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– **Property under development for sale**

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 1(v)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Inventories *(Continued)*

– Completed property held for resale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Convertible bonds

Convertible bonds 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 bonds 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 convertible bonds equity reserve until either the bond is converted or redeemed.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Convertible bonds *(Continued)*

If the bond is converted, the convertible bonds equity 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 share issued. If the bond is redeemed, the capital reserve is released directly to retained profits/accumulated losses.

(n) 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.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, 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.

(q) Employee benefits

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.

(r) 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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, 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.

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 difference 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 end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits 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 profits will be available.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the 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 Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in case of current tax assets and liabilities, the Company or the Group 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 realised the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(ii) Other 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 expenditure 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.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under current liabilities.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss 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 profit or loss 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

(iii) Dividends

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

(iv) Interest income

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

(u) 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 end of reporting period. Exchange gains and losses are recognised in profit or loss.

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 operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Borrowing costs

Borrowing costs that are 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 are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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.

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

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

(iv) 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

(v) 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.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various geographical locations.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*
- Amendments to HKAS 39, *Financial instruments: Recognition and measurement — eligible hedged items*
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, *Distributions of non-cash assets to owners*
- HK (Int) 5, *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendment to HKAS 39, improvements to HKFRSs (2009) and issuance of HK (Int) 5 have had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  — Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

- In order to be consistent with the above to HKFRS 3 and HKAS 27, and as a result of the amendments to HKAS 31, *Interests in joint ventures*, the following policies will be applied from 1 January 2010:

  — If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

- As a result of the amendments to HKAS 27, as from 1 January 2010, any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interest if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

3 TURNOVER

The principal activities of the Group are property development and investment.

Turnover represents income from sales of properties and rental income from investment properties. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2010 **$'000**	2009 $'000
Sales of properties	**170,502**	423,838
Rental income from investment properties	**3,877**	2,248
	174,379	426,086

4 OTHER REVENUE AND NET INCOME

	2010 **$'000**	2009 $'000
Interest income from loan to a director (note 19)	**16,593**	20,093
Other interest income	**5,160**	833
Net foreign exchange (loss)/gain	**(577)**	702
Dividend income	**478**	610
Others	**4,031**	7,018
	25,685	29,256

5 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

	2010 $'000	2009 $'000
(a) Finance costs:		
Interest on bank loans	**66,690**	57,580
Interest on convertible bonds	**101,133**	95,874
Interest on promissory notes	**—**	1,309
Interest expense on other borrowings repayable on demand	**642**	772
Total interest expense on financial liabilities not carried at fair value through profit or loss	**168,465**	155,535
Less: Interest expense capitalised into properties under development*	**(47,776)**	(26,160)
	120,689	129,375

* The borrowing costs have been capitalised at rates ranging from 5.4% — 5.88% per annum (2009: 5.4% — 7.56% per annum).

	2010 $'000	2009 $'000
(b) Staff costs:		
Contributions to defined contribution retirement plan	**659**	681
Salaries, wages and other benefits	**13,304**	14,113
	13,963	14,794

5 (LOSS)/PROFIT BEFORE TAXATION *(Continued)*

	2010 $'000	2009 $'000
(c) Other items:		
Depreciation of property, plant and equipment	**1,546**	1,191
Amortisation of prepaid lease payments	**160**	154
Auditor's remuneration	**762**	715
Operating lease charges in respect of property, plant and equipment	**365**	174
Gain on disposal of property, plant and equipment	**(109)**	(681)
Revaluation surplus on property, plant and equipment	**(233)**	(78)
Rentals receivable from investment properties less direct outgoings of $223,000 (2009: $173,000) (note 3)	**(3,654)**	(2,075)
Cost of properties sold	**102,816**	294,902

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2010 $'000	2009 $'000
Current tax		
PRC Corporate Income Tax (note (ii))	**12,997**	28,261
PRC Land Appreciation Tax (note (iii))	**12,795**	19,915
Over-provision of LAT in respect of prior year	**—**	(20,248)
	25,792	27,928
Deferred tax		
Origination and reversal of temporary differences (note 31(b))	**(15,536)**	35,142
	10,256	63,070

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

(i) No provision for Hong Kong profits tax has been made in the financial statements as the Company and the Group did not have assessable profit in Hong Kong for the year.

(ii) PRC Corporate Income Tax

The provision for Corporate Income Tax has been calculated at the applicable tax rates on the estimated assessable profits of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The Corporate Income Tax rate applicable to the Group's subsidiaries located in the PRC is 25% (2009: 25%).

(iii) PRC Land Appreciation Tax ("LAT")

All income from sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including costs of land use rights, borrowing costs and relevant development expenditure.

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

	2010 **$'000**	2009 $'000
(Loss)/profit before taxation	**(69,524)**	146,546
Notional tax calculated at rates applicable to profits in the tax jurisdictions concerned	**(7,798)**	45,385
Tax effect of non-deductible expenses	**19,926**	19,611
Tax effect of non-taxable income	**(605)**	(32,318)
Tax effect of unused tax losses not recognised	**251**	7,186
LAT and corresponding PRC Corporate Income Tax effect	**6,565**	23,206
Tax loss brought forward recognised as deferred tax asset	**(8,396)**	—
Provision for withholding tax in respect of dividends declared	**313**	—
Actual tax expense	**10,256**	63,070

7 DIRECTORS' REMUNERATION

Directors' remuneration is as follows:

	2010			
	Directors' fee $'000	Salaries allowances and benefits in kind $'000	Retirement scheme contributions $'000	2010 Total $'000
Chairman:				
Mr. Chen Chang Wei	–	2,743	12	2,755
Executive directors:				
Ms. Chan Sheung Ni	–	663	12	675
Ms. Chen Dong Xue	–	875	–	875
Independent non-executive directors:				
Ms. Lin Wen Feng	80	–	–	80
Mr. Ma Ving Lung	100	–	–	100
Mr. Yip King Keung, Pony	80	–	–	80
	260	4,281	24	4,565

7 DIRECTORS' REMUNERATION *(Continued)*

	2009			
	Directors' fee $'000	Salaries allowances and benefits in kind $'000	Retirement scheme contributions $'000	2009 Total $'000
Chairman:				
Mr. Chen Chang Wei	—	720	12	732
Executive directors:				
Ms. Chan Sheung Ni	—	300	12	312
Ms. Chen Dong Xue	—	548	—	548
Mr. Wong Hing Ting, James (resigned during the year)	—	320	12	332
Independent non-executive directors:				
Ms. Lin Wen Feng	60	—	—	60
Mr. Ma Ving Lung	60	—	—	60
Mr. Yip King Keung, Pony	60	—	—	60
	180	1,888	36	2,104

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

	2010 $'000	2009 $'000
Salaries and other emoluments	**722**	161
Retirement scheme contributions	**24**	6
	746	167

The emoluments of the two (2009: one) individuals with the highest emoluments are within the band of nil to $1,000,000.

9 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company includes a loss of $109,177,000 (2009: $99,878,000) which has been dealt with in the financial statements of the Company.

10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income are as follows:

	2010			2009		
	Before tax amount $'000	**Tax effect $'000**	**Net-of-tax amount $'000**	Before tax amount $'000	Tax effect $'000	Net-of-tax amount $'000
Exchange differences on translation of financial statements of subsidiaries in the PRC	**108,533**	**—**	**108,533**	(864)	—	(864)
Surplus on revaluation of property, plant and equipment	**427**	**(106)**	**321**	2,145	(536)	1,609
	108,960	**(106)**	**108,854**	1,281	(536)	745

11 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the consolidated loss attributable to equity shareholders of the Company of $102,911,000 (2009: profit of $11,217,000) and the weighted average number of ordinary shares of 1,118,507,000 (2009: 1,111,047,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2010 '000	2009 '000
Issued ordinary shares at 1 January	**1,118,507**	1,092,507
Effect of exercise of convertible bonds	**—**	18,540
	1,118,507	1,111,047

11 (LOSS)/EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

The diluted earnings per share for the years ended 31 December 2010 and 2009 are not presented as the potential ordinary shares had anti-dilution effect on the earnings per share.

12 SEGMENT REPORTING

The Group manages its businesses by projects in different region within the PRC. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Projects in Fujian Province: this segment engages in the development of residential and commercial properties for sales and leasing in Fujian Province.

- Projects in Zhejiang Province: this segment engages in the development of residential and commercial properties for sales as well as leasing of properties to earn rental income in Zhejiang Province. As set out in note 39, on 3 March 2011, the Group entered into an agreement to sell the entire interest in Right Strong Holding Limited. Upon completion of the sale transaction, this segment would be disposed of.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets and other corporate assets. Segment liabilities include current liabilities, bank borrowings managed directly by the segments and deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "Profit before tax".

12 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

	Projects in Fujian Province $'000	Projects in Zhejiang Province $'000	Total $'000
For the year ended 31 December 2010			
Revenue from external customers	**—**	**174,379**	**174,379**
Reportable segment (loss)/profit	**(24,226)**	**63,906**	**39,680**
At 31 December 2010			
Reportable segment assets	**5,370,361**	**542,714**	**5,913,075**
Reportable segment liabilities	**3,936,417**	**365,231**	**4,301,648**

	Projects in Fujian Province $'000	Projects in Zhejiang Province $'000	Total $'000
For the year ended 31 December 2009			
Revenue from external customers	—	426,086	426,086
Reportable segment profit	101,551	144,885	246,436
At 31 December 2009			
Reportable segment assets	4,328,106	453,808	4,781,914
Reportable segment liabilities	2,984,493	317,275	3,301,768

12 SEGMENT REPORTING *(Continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

Revenue	2010 $'000	2009 $'000
Reportable segment and consolidated revenue	**174,379**	426,086

(Loss)/profit	2010 $'000	2009 $'000
Reportable segment profit	**39,680**	246,436
Unallocated head office and corporate results	**(109,204)**	(99,890)
Consolidated (loss)/profit	**(69,524)**	146,546

Assets	2010 $'000	2009 $'000
Reportable segment assets	**5,913,075**	4,781,914
Elimination of inter-segment receivables	**(799,518)**	(525,244)
Unallocated head office and corporate assets	**590,398**	391,904
Consolidated total assets	**5,703,955**	4,648,574

Liabilities	2010 $'000	2009 $'000
Reportable segment liabilities	**4,301,648**	3,301,768
Elimination of inter-segment payables	**(799,518)**	(525,244)
Unallocated head office and corporate liabilities	**1,791,447**	1,595,850
Consolidated total liabilities	**5,293,577**	4,372,374

13 INVESTMENT PROPERTIES

	The Group	
	2010	2009
	$'000	$'000
At 1 January	**88,105**	23,794
Exchange adjustments	**3,935**	139
Additions	**1,372**	19,675
Disposal	**(793)**	—
Fair value adjustment	**9,152**	44,497
At 31 December	**101,771**	88,105

The investment properties of the Group were revalued on an open market value basis at end of each reporting period by independent firms of surveyors, Savills Valuation and Professional Services Limited and RHL Appraisal Limited, both of which have recent experience in the respective location and category of property being valued. The valuations were mainly based on reference to the comparable market transactions assuming sale with the benefit of vacant possession.

The Group leases out completed investment property under operating leases. The leases run for an initial period of 1 to 12 years, with an option to renew the lease after that date at which time all terms are renegotiated. Certain leases include contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group's total future minimum rental receivables under non-cancellable operating leases are as follows:

	2010	2009
	$'000	$'000
Within 1 year	**1,537**	1,464
After 1 year but within 5 years	**1,764**	953
	3,301	2,417

The Group's investment properties are held on leases of between 40 to 70 years in the PRC as at 31 December 2009 and 2010.

14 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Building held for own use carried at fair value $'000	Leasehold improvements $'000	Furniture, fixtures, and equipment $'000	Motor vehicles $'000	Total $'000
Cost or valuation:					
At 1 January 2009	11,539	118	692	2,451	14,800
Exchange adjustments	31	–	2	505	538
Additions	3,408	–	301	907	4,616
Disposals	(158)	–	–	(498)	(656)
Surplus on revaluation	2,223	–	–	–	2,223
Less: elimination of accumulated depreciation	(840)	–	–	–	(840)
At 31 December 2009	16,203	118	995	3,365	20,681
Representing:					
Cost	–	118	995	3,365	4,478
Valuation – 2009	16,203	–	–	–	16,203
	16,203	118	995	3,365	20,681
At 1 January 2010	16,203	118	995	3,365	20,681
Exchange adjustments	597	–	114	972	1,683
Additions	–	–	58	–	58
Disposals	–	–	–	(469)	(469)
Surplus on revaluation	660	–	–	–	660
Less: elimination of accumulated depreciation	(933)	–	–	–	(933)
At 31 December 2010	16,527	118	1,167	3,868	21,680
Representing:					
Cost	–	118	1,167	3,868	5,153
Valuation – 2010	16,527	–	–	–	16,527
	16,527	118	1,167	3,868	21,680

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The Group *(Continued)*

	Building held for own use carried at fair value $'000	Leasehold improvements $'000	Furniture, fixtures, and equipment $'000	Motor vehicles $'000	Total $'000
Accumulated depreciation:					
At 1 January 2009	–	35	323	1,711	2,069
Exchange adjustments	–	–	1	503	504
Charge for the year	840	36	143	172	1,191
Written back on disposals	–	–	–	(498)	(498)
Elimination on revaluation	(840)	–	–	–	(840)
At 31 December 2009	–	71	467	1,888	2,426
At 1 January 2010	–	71	467	1,888	2,426
Exchange adjustments	–	–	21	397	418
Charge for the year	933	36	192	385	1,546
Written back on disposals	–	–	–	(317)	(317)
Elimination on revaluation	(933)	–	–	–	(933)
At 31 December 2010	–	107	680	2,353	3,140
Net book value:					
At 31 December 2010	16,527	11	487	1,515	18,540
At 31 December 2009	16,203	47	528	1,477	18,255

(b) Revaluation of properties

The buildings held for own use carried at fair value were revalued on an open market value basis at the end of each reporting period by independent firms of surveyors, Savills Valuation and Professional Service Limited and RHL Appraisal Limited, both of which have recent experience in the respective location and category of property being valued. The revaluation surplus of $427,000 (2009: $2,145,000) has been recognised in other comprehensive income and accumulated in the property revaluation reserve of the Group, net of deferred tax (note 10). The revaluation surplus of $233,000 (2009: $78,000) has been recognised in profit or loss of the Group, net of deferred tax (note 5(c)).

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Revaluation of properties *(Continued)*

Had these properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been approximately $12,860,000 (2009: $13,312,000) at 31 December 2010.

As at 31 December 2010, the property, plant and equipment with carrying value amounting to $1,599,000 (2009: $1,483,000) were pledged as collateral for the Group's borrowings (note 28).

15 PREPAID LEASE PAYMENTS

The Group's interests in land use rights represent prepaid operating lease payments and are held under long term leases (50 years or more) in the PRC and Hong Kong.

	The Group	
	2010	2009
	$'000	$'000
Cost:		
At 1 January	**29,537**	28,372
Exchange adjustments	**182**	10
Additions	**—**	1,155
At 31 December	**29,719**	29,537
Accumulated amortisation:		
At 1 January	**902**	746
Exchange adjustments	**35**	2
Charge for the year	**160**	154
At 31 December	**1,097**	902
Net book value:		
At 31 December	**28,622**	28,635
Current portion	**(130)**	(126)
Non-current portion	**28,492**	28,509

As at 31 December 2010, the prepaid lease payments with carrying value amounting to $8,055,000 (2009: $8,153,000) were pledged as collateral for the Group's borrowings (note 28).

16 GOODWILL

	The Group	
	2010	2009
	$'000	$'000
Cost:		
At 1 January	**394,782**	394,782
Exchange adjustment	**4,079**	—
At 31 December	**398,861**	394,782
Accumulated impairment losses:		
At 1 January/31 December	**(299,000)**	(299,000)
Carrying amount:		
At 31 December	**99,861**	95,782

The goodwill arose from the acquisition of the entire issued share capital of Amazing Wise Limited ("Amazing Wise") in 2008. The balance represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of Amazing Wise as at the acquisition date.

The Group carried out impairment testing of the goodwill as at 31 December 2009 and 2010. As a result of the downturn of the PRC property market in 2008, an impairment loss of $299,000,000 in respect of the goodwill was recorded. As a result of the appreciation of property prices in 2009, no further impairment is considered necessary. The goodwill was not written back in accordance with its accounting policy as set out note 1(j).

In assessing the impairment of goodwill, the recoverable amount of the cash generating unit ("CGU") is determined. The CGU related to the goodwill includes all the subsidiaries of Amazing Wise. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 5-year period. Cash flows are extrapolated using an estimated weighted average growth rate of 3% - 5% (2009: 3% - 5%). The cash flows are discounted using a discount rate of 16% (2009: 13%). In determining discount rate, the Capital Assets Pricing Model ("CAPM") was used. Under CAPM, the appropriate expected rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. The management's key assumptions include profit margins which have been determined based on past performance and its expectations for market performance. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

17 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	$'000	$'000
Unlisted investments, at cost	**1,705,241**	1,705,241

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

			Proportion of ownership interest			
Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	held by the Company	held by a subsidiary	Principal activities
China Fair Land (Shenyang) Limited	Hong Kong	2 ordinary shares of $1 each	100%	–	100%	Investment holding
China Fair Land (Suzhou) Limited	Hong Kong	2 ordinary shares of $1 each	100%	–	100%	Investment holding
China Fair Land (Ningbo) Limited	Hong Kong	2 ordinary shares of $1 each and 10,000 non-voting deferred shares of $1 each	100%	–	100%	Investment holding
Amazing Wise Limited	British Virgin Islands	10 ordinary shares of $1 each	100%	100%	–	Investment holding
Dalong Industrial Group Limited	Hong Kong	10,000,000 ordinary shares of $1 each	100%	–	100%	Investment holding
Fujian Zhonglu Real Estate Development (HK) Limited	Hong Kong	1,000 ordinary shares of $1 each	100%	–	100%	Treasury
Flying Hope Investments Limited	British Virgin Islands	100 ordinary shares of $1 each	100%	100%	–	Investment holding
Heily Investments (HK) Limited	Hong Kong	1,000 ordinary shares of $1 each	100%	–	100%	Investment holding

(Expressed in Hong Kong dollars unless otherwise stated)

17 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Group's effective interest	held by the Company	held by a subsidiary	Principal activities
Grace Luck (Hong Kong) Limited	Hong Kong	1,000 ordinary shares of $1 each	100%	–	100%	Investment holding
Hengli Capital Management Limited	Hong Kong	1 ordinary share of $1	100%	100%	–	Inactive
Right Strong Holdings Limited	British Virgin Islands	1 ordinary share of $1	100%	100%	–	Investment holding
Brilliant Hope Investments Limited	British Virgin Islands	1 ordinary share of $1	100%	100%	–	Investment holding
Fujian Zhonglu Real Estate Development Co., Limited (note i)	PRC	RMB129,820,000	95% (note ii)	–	95%	Property development
Fujian Hengli Real Estate Development Co., Limited (note i)	PRC	RMB180,000,000	100%	–	100%	Property development
Ningbo Tuozhan Real Estate Development Co., Limited (note i)	PRC	RMB20,000,000	37.5% (note iii)	–	37.5%	Property development
Ningbo Jiangbei Zhong Cheng Real Estate Development Co., Ltd (note i)	PRC	RMB10,000,000	33.75% (note iv)	–	90%	Property development
Ningbo Shengshi Real Estate Co., Ltd. (note i)	PRC	RMB6,000,000	26.25% (note v)	–	70%	Property development
Co-operative joint venture:						
Fortune Garden Joint Venture Project	PRC	US$12,112,472	65.63%	–	65.63%	Property development

17 INVESTMENTS IN SUBSIDIARIES *(Continued)*

i. These entities are equity joint ventures established in the PRC.

ii. Pursuant to a share transfer agreement (the "Agreement") dated 22 May 2005 between Dalong Industrial Limited ("Dalong"), a subsidiary of the Group, and Fujian Zhonglu Group Co., Limited ("Zhonglu Group"), Zhonglu Group agreed to transfer 95% of equity of Fujian Zhonglu Real Estate Development Co., Limited ("Fujian Zhonglu") to Dalong, after which Fujian Zhonglu became a subsidiary of Dalong. Zhonglu Group has since then been the non-controlling equityholder of Fujian Zhonglu. According to the Agreement, certain assets and liabilities related to an old project commenced before the transfer were retained by Zhonglu Group, the relevant risks and benefits of the aforesaid projects were also retained by Zhonglu Group. Fujian Zhonglu maintains a separate books and records for this old project. As at 31 December 2010, the relevant assets and liabilities amounted to $42,017,000 (2009: $40,439,000) and $42,000 (2009: $40,000) respectively have not been legally transferred. However, as the risk and benefits of these assets and liabilities were retained by Zhonglu Group, these assets and liabilities were excluded from the consolidated financial statements. The Group is therefore entitled to 95% of the equity interest of Fujian Zhonglu excluding the above mentioned assets and liabilities.

iii. On 15 September 1995, China Fair Land (Ningbo) Limited ("China Fair Land Ningbo"), a wholly-owned subsidiary of the Company, entered into an irrevocable agreement (the "1995 Agreement") with China Real Estate Development Company Ningbo Company 中國房地產開發公司寧波公司 ("Ningbo CREDC"), a 25% owner of Ningbo Tuozhan Real Estate Development Co., Limited ("Ningbo Tuozhan"). Pursuant to the 1995 Agreement, Ningbo CREDC agreed to exercise its shareholder's rights and to procure the directors appointed by it to exercise their powers, including but not limited to the exercise of voting rights, in respect of the operation, management and strategic affairs of Ningbo Tuozhan, in concert with China Fair Land Ningbo and/or the directors appointed by China Fair Land Ningbo.

On 11 May 2001, China Fair Land Ningbo and Ningbo CREDC entered into a confirmation and agreement (the "2001 Confirmation") confirming that Ningbo CREDC and its nominated directors of Ningbo Tuozhan had, since the execution of the 1995 Agreement, exercised all their respective shareholder's and directors' rights (including voting rights) in accordance with the requests of China Fair Land Ningbo and/or its nominated directors of Ningbo Tuozhan in respect of the operation, management and strategic affairs of Ningbo Tuozhan. Ningbo CREDC has also irrevocably undertaken to exercise, and to procure its nominated directors of Ningbo Tuozhan to exercise, their respective shareholder's and directors' rights (including voting rights) in accordance with the requests of China Fair Land Ningbo and/or its nominated directors of Ningbo Tuozhan in respect of the operation, management and strategic affairs of Ningbo Tuozhan.

In 2003, Ningbo CREDC transferred its entire 25% equity interest in Ningbo Tuozhan to four of its employees (the "New 25% Owners"). On 30 September 2003, China Fair Land Ningbo entered into an agreement (the "concert voting agreement") with the New 25% Owners under which the New 25% Owners agreed to continue to cooperate with China Fair Land Ningbo in accordance with the 1995 Agreement and the 2001 Confirmation.

Based on the above-mentioned documents, the Company's directors consider that the Group holds 4 out of 7 of the voting rights in the board of directors of Ningbo Tuozhan and effectively controls the financial and operating policies of Ningbo Tuozhan. Accordingly, Ningbo Tuozhan is regarded as a subsidiary of the Group.

iv. Ningbo Tuozhan holds 90% equity interests in Ningbo Jiangbei Zhong Cheng Real Estate Development Co., Ltd. ("Ningbo Jiangbei Zhong Cheng"). The Company's directors consider that the Group holds 4 out of 7 of the voting rights in the board of directors of Ningbo Jiangbei Zhong Cheng. Accordingly, Ningbo Jiangbei Zhong Cheng is regarded as a subsidiary of the Group.

v. Ningbo Tuozhan holds 70% equity interests in Ningbo Shengshi Real Estate Co., Ltd. ("Ningbo Shengshi"). The Company's directors consider that the Group holds 4 our of 7 of the voting rights in the board of directors of Ningbo Shengshi. Accordingly, Ningbo Shengshi is regarded as a subsidiary of the Group.

18 AVAILABLE-FOR-SALE INVESTMENT

	The Group	
	2010	2009
	$'000	$'000
Unlisted investment, at cost		
At 1 January	**2,272**	2,265
Exchange adjustments	**96**	7
At 31 December	**2,368**	2,272

The investment represents the Group's unlisted investment in China Real Estate Development Group Investment Co., Limited (the "Investee"), a company established in the PRC. The investment represented 2% of the total equity interest in the Investee. The available-for-sale investment is stated at cost less impairment since the Investee is a not a listed company and its equity interest has no open market quoted price. The directors of the Company are of the opinion that the investment's fair value cannot be reliably measured without incurring significant cost.

19 LOAN TO A DIRECTOR

On 19 June 2009, Fujian Zhonglu Real Estate Development Co., Ltd. ("Fujian Zhonglu") and Mr. Chen Chang Wei ("Mr. Chen"), a shareholder and director of the Group, entered into an agreement pursuant to which Fujian Zhonglu agreed to extend the repayment date of a loan to Mr. Chen to 31 December 2011 from 20 June 2009. The extension constitutes a major and connected transaction for the Company under the Listing Rules and was approved by the independent shareholders at the Company's special general meeting in July 2009. As the loan is non-interest bearing and repayable at 31 December 2011, the fair value of the loan at 19 June 2009 was estimated and the difference of the fair value and the face value of the loan was accounted for as a deemed distribution. The loan was initially recognised based on a discount rate of 5.4% per annum. The maximum balance outstanding during the year is $342,508,000 (2009: $328,708,000).

	The Group
	$'000
Carrying value	
At 1 January 2009	327,667
Exchange adjustment	(111)
Deemed distribution	(52,520)
Interest income	20,093
At 31 December 2009 and 1 January 2010	295,129
Exchange adjustment	12,821
Interest income	16,593
At 31 December 2010	324,543

The loan to a director as at 31 December 2009 was classified under non-current assets as the loan repayment date was 31 December 2011. The balance was disclosed under current assets as at 31 December 2010.

20 PROPERTIES UNDER DEVELOPMENT

(a) Properties under development in the balance sheet comprise:

	The Group	
	2010	2009
	$'000	$'000
Land use rights	**3,181,376**	3,020,391
Construction costs	**792,641**	469,466
Interest expense capitalised	**116,759**	81,933
	4,090,776	3,571,790

The properties under development are all located in the PRC.

As at 31 December 2010, the properties under development amounting to $3,648,859,000 (2009: $3,130,420,000) were pledged as collateral for the Group's borrowings (note 28).

Included in the property under development is the shopping spaces of Hengli City in Fuzhou, with carrying value amounted to $828,603,000 at 31 December 2010 (2009: $737,190,000). When these properties were acquired in 2008, the directors intended to sell the shopping spaces after completion of construction and hence they were initially classified as property under development under current assets. In 2009, the Group has changed their plan and has been negotiating with potential tenants for leasing of the shopping spaces. As set out in note 39, the Group entered into a lease agreement for these shopping spaces subsequent to 31 December 2010. Upon commencement of an operating lease in respect of these shopping spaces, the Group would account for these properties as investment properties under HKAS 40, *Investment Property.*

(b) The analysis of land use rights by lease terms is as follows:

	The Group	
	2010	2009
	$'000	$'000
Outside Hong Kong, held on leases of:		
— long leases (over 50 years)	**1,685,026**	1,622,656
— medium-term leases (10 to 50 years)	**1,496,350**	1,397,735
	3,181,376	3,020,391

20 PROPERTIES UNDER DEVELOPMENT *(Continued)*

(c) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2010 **$'000**	2009 $'000
Carrying amount of inventories sold	**102,816**	294,902
Reversal of write-down of inventories	**—**	(125,000)
	102,816	169,902

21 PROPERTIES HELD FOR SALES

Properties held for sale by the Group included leasehold interests in land located in the PRC within lease terms expiring of 40 to 70 years.

22 TRADE AND OTHER RECEIVABLES

	The Group		**The Company**	
	2010 **$'000**	2009 $'000	**2010** **$'000**	2009 $'000
Trade receivables	**2,370**	1,579	**1,566**	1,566
Prepayments, other receivables and deposits	**90,716**	29,715	**3,059**	3,059
Prepaid lease payments (current portion)	**130**	126	**—**	—
Amounts due from subsidiaries	**—**	—	**438,187**	282,340
	93,216	31,420	**442,812**	286,965

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

The amount of the Group's and the Company's deposits and prepayments expected to be recovered or recognised as expense after more than one year is $20,419,000 (2009: $14,109,000) and $21,000 (2009: $21,000) respectively.

Details of the Group's credit policy are set out in note 33(a).

22 TRADE AND OTHER RECEIVABLES *(Continued)*

Included in prepayments, other receivables and deposits of the Company and of the Group as at 31 December 2010, is the estimated amount indemnified by certain beneficial owners of the Company in relation to the LAT attributable to sales of properties before the listing of the Company in the Main Board of the Stock Exchange amounted to $3,038,000 (2009: $3,038,000) (note 32(c)(ii)).

(a) Ageing analysis

The ageing analysis of trade receivables is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Current	**2,370**	1,579	**1,566**	1,566

At 31 December 2010, no impairment allowance is necessary in respect of the Group's trade receivables as the management considers that the balances are fully recoverable. The Group does not hold any collateral over these balances.

23 RESTRICTED BANK DEPOSITS

Bank deposits have been pledged as security for bank loans (see note 28). The pledged bank deposits will be released upon the settlement of relevant bank loans.

24 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**209,835**	137,977	**6,763**	998

24 CASH AND CASH EQUIVALENTS *(Continued)*

(b) Reconciliation of (loss)/profit before taxation to cash generated from operations:

	Note	**2010** **$'000**	2009 $'000
(Loss)/profit before taxation		**(69,524)**	146,546
Adjustments for:			
Valuation gain on investment property		**(9,152)**	(44,497)
Dividend income	4	**(478)**	(610)
Revaluation surplus on property, plant and equipment	5(c)	**(233)**	(78)
Depreciation	5(c)	**1,546**	1,191
Gain on disposal of property, plant and equipment	5(c)	**(109)**	(681)
Amortisation of prepaid lease payments	5(c)	**160**	154
Finance costs	5(a)	**120,689**	129,375
Interest income from loan to a director	4	**(16,593)**	(20,093)
Other interest income	4	**(5,160)**	(833)
Reversal of write down of properties under development		**–**	(125,000)
Increase in properties under development		**(382,842)**	(254,572)
Decrease/(increase) in properties held for sale		**57,838**	(170,445)
(Increase)/decrease in trade and other receivables		**(284,367)**	178,730
Increase in receipts in advance		**687,659**	177,592
(Decrease)/increase in trade and other payables		**(12,130)**	45,800
Cash generated from operations		**87,304**	62,579

25 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Trade payables	**220,514**	191,814	**—**	—
Other creditors and accrued charges	**134,861**	150,750	**3,086**	402
Amounts due to shareholders	**—**	24,963	**—**	16,674
Amounts due to subsidiaries	**—**	—	**328,485**	242,864
Amounts due to non-controlling equity holders	**18,886**	16,411	**—**	—
	374,261	383,938	**331,571**	259,940

The amounts due to shareholders, subsidiaries and non-controlling equity holders are interest free and repayable on demand or within one year.

The following is the aging analysis of trade payables as of the end of reporting period:

	The Group	
	2010	2009
	$'000	$'000
Due within 3 months or on demand	**108,727**	89,460
Due over 12 months	**111,787**	102,354
	220,514	191,814

The balance due over 12 months mainly represents retention money for construction projects.

All of the other creditors and accrued charges are expected to be settled within one year or are repayable on demand.

26 RECEIPTS IN ADVANCE

The amount represents instalments of sales proceeds received from buyers in connection with the Group's pre-sale of properties. The amount is expected to be recognised as revenue of the Group within one normal operating cycle for properties under development and properties held for sales.

27 PROMISSORY NOTES

The outstanding balance of the promissory notes at 31 December 2009 was unsecured, interest-free and repayable on demand. The amount was repaid in 2010.

28 BANK LOANS

At 31 December 2010, bank loans were repayable and secured as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Within 1 year	**1,264,082**	207,313	**50,000**	—
After 1 year but within 2 years	**155,477**	957,768	**–**	—
After 2 year but within 5 years	**6,478**	29,087	**–**	—
After 5 years	**5,629**	7,850	**–**	—
	1,431,666	1,202,018	**50,000**	—
Secured by the assets of the Group (note a)	**1,431,666**	1,128,087	**50,000**	—
Secured by personal guarantees and other assets (note b)	**–**	73,931	**–**	—
	1,431,666	1,202,018	**50,000**	—

(a) At 31 December 2010, the assets of the Group pledged to secure bank loans comprise the following assets:

	2010	2009
	$'000	$'000
Property, plant and equipment (note 14(b))	**1,599**	1,483
Prepaid lease payments (note 15)	**8,055**	8,153
Properties under development (note 20)	**3,648,859**	3,130,420
Restricted bank deposits (note 23)	**344,637**	198,508
	4,003,150	3,338,564

(b) Certain bank loans at 31 December 2009 were guaranteed by Mr. Chen Chang Wei and Ms. Chan Sheung Ni and were secured by certain personal properties. Both of them are shareholders and directors of the Company.

29 CONVERTIBLE BONDS

On 21 January 2008, the Company issued $2,701,711,500 zero coupon convertible bonds at 100% of principal amount as part of the consideration for the acquisition of Amazing Wise Limited and its subsidiaries. The convertible bonds are secured by the shares of Amazing Wise Limited held by the Company.

The rights of the convertible bond holders to convert the convertible bonds into ordinary shares are as follows;

- Conversion rights are exercisable at any time up to maturity at the option of convertible bond holders.
- If a holder exercises its conversion rights, the Company is required to deliver ordinary shares at a rate of $0.50 per share.

Pursuant to a rights issue in 2010 (see note 32(c)(iii)), the conversion price of the convertible bonds has been adjusted to $0.334 per share, according to the terms and conditions of the convertible bonds. Following the adjustment, the maximum number of conversion shares to be allotted and issued by the Company upon full conversion of the convertible bonds based on the adjusted conversion price of $0.334 per share would be 7,029,076,347 new shares.

If the convertible bonds' conversion rights have not been exercised up to the maturity date, i.e. 20 January 2018, the Company will redeem at face value on 20 January 2018.

The convertible bonds recognised in the balance sheet are analysed as follows:

	Liability component $'000	Equity component $'000
Net carrying amount at 31 December 2009	1,267,706	136,770
Interest expense	101,133	—
Net carrying amount at 31 December 2010	1,368,839	136,770

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 8% to the liability component.

At 31 December 2010, the outstanding principal amount of the convertible bonds is approximately $2,347,712,000 (2009: $2,347,712,000).

30 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

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 $20,000. Contributions to the plan vest immediately.

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 12% to 18% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

31 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2010	2009
	$'000	$'000
Current tax recoverable:		
PRC Corporate Income Tax	**35,678**	1,883
PRC Land Appreciation Tax	**19,058**	2,666
	54,736	4,549
Current tax payable:		
PRC Corporate Income Tax	**37,636**	53,836
PRC Land Appreciation Tax	**42,446**	33,486
	80,082	87,322

31 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Revaluation of properties $'000	Land appreciation tax $'000	Effective interest $'000	Tax losses carried forward $'000	Total $'000
At 1 January 2009	(950,278)	9,358	–	–	(940,920)
Exchange adjustments	(23)	28	11	–	16
Credited to profit or loss	(34,594)	(548)	–	–	(35,142)
Credited to reserves	(201)	–	7,964	–	7,763
Credited to non-controlling interest	(335)	–	419	–	84
At 31 December 2009	(985,431)	8,838	8,394	–	(968,199)
At 1 January 2010	**(985,431)**	**8,838**	**8,394**	**–**	**(968,199)**
Exchange adjustments	**(659)**	**419**	**245**	**444**	**449**
Credited to profit or loss	**7,420**	**(4,860)**	**(4,148)**	**17,124**	**15,536**
Credited to reserves	**(40)**	**–**	**–**	**–**	**(40)**
Credited to non-controlling interests	**(66)**	**–**	**–**	**–**	**(66)**
At 31 December 2010	**(978,776)**	**4,397**	**4,491**	**17,568**	**(952,320)**

	2010 $'000	2009 $'000
Net deferred tax assets	**4,397**	8,838
Net deferred tax liabilities	**(956,717)**	(977,037)
	(952,320)	(968,199)

31 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $129,924,000 (2009: $162,250,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses arose in mainland China can be carried forward for five years and the tax losses of the Group arose elsewhere other than in the mainland do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

Effective from 1 January 2008, the Group is subject to 10% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits earned since 1 January 2008. As at 31 December 2010, deferred tax liabilities of $9,998,000 (2009: $7,087,000) in respect of temporary differences relating to such undistributed profits of $99,980,000 (2009: $70,870,000) were not recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that those profits will not be distributed in the foreseeable future.

32 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital $'000	Share premium $'000	Prepaid share reserve $'000	Capital reserve $'000	Special reserve $'000	Convertible bonds equity reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 January 2009		109,251	192,231	–	3,038	127,961	137,527	(71,149)	498,859
Changes in equity for 2009									
Total comprehensive income for the year		–	–	–	–	–	–	(99,878)	(99,878)
Convertible bonds exercised	32(b)	2,600	4,734	–	–	–	(757)	–	6,577
Balance at 31 December 2009 and 1 January 2010		111,851	196,965	–	3,038	127,961	136,770	(171,027)	405,558
Changes in equity for 2010									
Total comprehensive income for the year		–	–	–	–	–	–	(109,177)	(109,177)
Rights issue of shares	32(c) (iii)	–	(3,826)	111,851	–	–	–	–	108,025
Balance at 31 December 2010		111,851	193,139	111,851	3,038	127,961	136,770	(280,204)	404,406

32 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2010 No. of shares '000	2010 Amount $'000	2009 No. of shares '000	2009 Amount $'000
Authorised:				
Ordinary shares of $0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of $0.1 each				
At 1 January	**1,118,507**	**111,851**	1,092,507	109,251
Exercise of convertible bonds	**—**	**—**	26,000	2,600
At 31 December	**1,118,507**	**111,851**	1,118,507	111,851

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

During the year ended 31 December 2009, 26,000,000 ordinary shares of $0.10 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of $0.50 per share (see note 29 for details of the convertible bonds).

For a rights issue of shares of the Company, please refer to note 32(c)(iii).

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium is governed by Companies Act 1981 of Bermuda. The reduction of share premium in 2010 represented expenses directly attributable to a rights issue of shares as set out in note 32(c)(iii).

32 CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(ii) Capital reserve

In 2002, upon the reorganisation and the listing of the Company, Mr. So Pang Gen, International Offshore Development Limited ("International Offshore"), Chance Fair International Development Limited and Future Opportunity Limited (hereinafter collectively referred to as the "Covenanters"), entered into a deed of tax indemnity with the Company whereby the Covenanters have on a joint and several basis, under certain terms and conditions, undertaken to indemnify the Company in respect of the LAT which might be payable by any member of the Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date of listing of the Company's shares on the Stock Exchange (the "Listing Date") or by reference to any act, transaction or event occurring or deemed to occur on or before the Listing Date. The capital reserve of the Company and of the Group represents the estimated indemnity of LAT from the Covenanters.

(iii) Prepaid share reserve

On 28 December 2010, the Company received $111,850,000 before expenses for issue of 1,118,507,000 shares at the subscription price of $0.10 by way of rights issue on the basis of one share for every existing share held. The rights issue was completed and the shares were issued on 3 January 2011. The expenses directly attributable to the rights issue amounted to $3,826,000 were debited to share premium of the Company.

(iv) Special reserve

The special reserve of the Group represents the difference between the aggregate nominal value of the share capital of the Company's subsidiaries acquired and the nominal value of the shares issued by the Company in connection with a group reorganisation.

The special reserve of the Company represents the difference between the aggregate of the net asset value of the Company's subsidiaries acquired and the nominal value of the shares issued by the Company in connection with a group reorganisation.

(v) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of operations in the PRC.

The reserve is dealt with in accordance with the accounting policies set out in note 1(u).

32 CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(vi) Convertible bonds equity reserve

Convertible bonds equity reserve represents the excess of the issue proceeds over the present value of the future principal payments of the convertible bonds, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option at its inception.

(vii) Distributable reserve

As at 31 December 2010, the Company did not have any reserves distributable to shareholders (2009: nil). The Company's share premium account and special reserve of $193,139,000 and $127,961,000 respectively, as at 31 December 2010 may be distributable to shareholders, after netting off with the accumulated losses in certain circumstances prescribed by Section 54 of the Companies Act 1981 of Bermuda.

(d) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise return to shareholders.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. No changes were made in the objectives, policies or processes during the current year.

The Group monitors capital using a gearing ratio, which is defined as net debt divided by aggregate of net debts and total equity. Net debts are calculated as bank loans, including current and non-current portion, promissory notes and convertible bonds net of cash and bank balances as shown in the consolidated balance sheet. Total equity is as shown in the consolidated balance sheet. The Group aims to maintain the gearing ratio at a reasonable level.

32 CAPITAL AND RESERVES *(Continued)*

(d) Capital management *(Continued)*

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

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Bank loans	**1,431,666**	1,202,018	**50,000**	—
Promissory notes	**—**	60,000	**—**	60,000
Convertible bonds	**1,368,839**	1,267,706	**1,368,839**	1,267,706
Total debt	**2,800,505**	2,529,724	**1,418,839**	1,327,706
Less: Cash at bank and in hand & pledged bank deposits	**(554,472)**	(336,485)	**(6,763)**	(998)
Net debts	**2,246,033**	2,193,239	**1,412,076**	1,326,708
Total equity	**410,378**	276,200	**404,406**	405,558
Gearing ratio	**84.55%**	88.82%	**77.74%**	76.59%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below:

(a) Credit risk

The Group has no concentrations on credit risk. Bank deposits are placed with high-credit-quality financial institutions. The extent of the Group's credit exposure is represented by the aggregate balance of cash at bank, restricted bank deposits, loan to a director and trade and other receivables.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(a) Credit risk *(Continued)*

For deposits at banks and financial institutions, deposits are only placed with reputable banks. The loan to a director is of the nature of cash advance to a director and shareholder of the Company, who at the same time is the holder of the Company's convertible bonds. Hence, the possibility of bad debt is low.

For the trade receivables arising from sales of properties, the Group manages the credit risk by fully receiving cash before delivery of property. The Group has set out policies to ensure follow-up action is taken to recover overdue debts. The Group also reviews regularly the recoverable amount of each individual trade receivable balance to ensure that adequate impairment losses are made for irrecoverable amounts. In addition, the Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is set out in note 35.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. Except for the financial guarantee given by the Group as set out in note 35, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of each reporting period is disclosed in note 35.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22.

(b) Liquidity risk

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 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.

The following table show the remaining contractual maturities at the end of each reporting period of the Group's and 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 end of each reporting period) and the earliest date of the Group and the Company can be required to pay.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

The Group:

	2010					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 year but less than 5 years $'000	More than 5 years $'000	Total $'000	Balance sheet carrying amount $'000
Trade and other payables	**374,261**	**–**	**–**	**–**	**374,261**	**374,261**
Bank loans	**1,327,541**	**158,542**	**7,757**	**6,857**	**1,500,697**	**1,431,666**
Convertible bonds	**–**	**–**	**–**	**2,347,712**	**2,347,712**	**1,368,839**
	1,701,802	**158,542**	**7,757**	**2,354,569**	**4,222,670**	**3,174,766**

	2009					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 year but less than 5 years $'000	More than 5 years $'000	Total $'000	Balance sheet carrying amount $'000
Trade and other payables	383,938	–	–	–	383,938	383,938
Promissory notes	60,000	–	–	–	60,000	60,000
Bank loans	263,970	1,009,308	35,082	9,668	1,318,028	1,202,018
Convertible bonds	–	–	–	2,347,712	2,347,712	1,267,706
	707,908	1,009,308	35,082	2,357,380	4,109,678	2,913,662

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

The Company:

	2010			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand $'000	More than 5 years $'000	Total $'000	Balance sheet carrying amount $'000
Other payables	**331,571**	**—**	**331,571**	**331,571**
Bank loans	**50,112**	**—**	**50,112**	**50,000**
Convertible bonds	**—**	**2,347,712**	**2,347,712**	**1,368,839**
	381,683	**2,347,712**	**2,729,395**	**1,750,410**

	2009			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand $'000	More than 5 years $'000	Total $'000	Balance sheet carrying amount $'000
Other payables	259,940	—	259,940	259,940
Promissory notes	60,000	—	60,000	60,000
Convertible bonds	—	2,347,712	2,347,712	1,267,706
	319,940	2,347,712	2,667,652	1,587,646

As shown in the above analysis, bank loans of the Group amounting to $1,327,541,000 (2009: $263,970,000) were due to be repaid during 2011.

The directors are of the opinion that, after taking account of the effect of the financial support from a shareholder, it is appropriate to prepare the financial statements on a going concern basis. The directors have concluded that the Company would have sufficient working capital to finance its operations in the next 12 months and remain as a going concern.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued 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's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's borrowings at the end of each reporting period:

The Group:

	2010		2009	
	Effective interest rate %	**$'000**	Effective interest rate %	$'000
Fixed rate borrowings:				
— Promissory notes	**—**	**—**	—	60,000
— Convertible bonds	**8.0**	**1,368,839**	8.0	1,267,706
— Bank loans	**2.8~3.25**	**156,000**	2.8	117,000
		1,524,839		1,444,706
Variable rate borrowings:				
— Bank loans	**2.0~6.0**	**1,275,666**	1.4~6.0	1,085,018
Total borrowings		**2,800,505**		2,529,724

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk *(Continued)*

(i) Interest rate profile *(Continued)*

The Company:

	2010		2009	
	Effective interest rate %	**$'000**	Effective interest rate %	$'000
Fixed rate borrowings:				
— Promissory notes	**—**	**—**	—	60,000
— Convertible bonds	**8.0**	**1,368,839**	8.0	1,267,706
— Bank loans	**2.0**	**50,000**	—	—
Total borrowings		**1,418,839**		1,327,706

(ii) Sensitivity analysis

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax by approximately $2,703,000 (2009: increase/decrease loss after tax by approximately $3,991,000). Other components of consolidated equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit/loss after tax (and retained profits/accumulated losses) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of each reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate instruments held by the Group at the end of each reporting period, the impact on the Group's profit/loss after tax (and retained profits/accumulated losses) and other components of consolidated equity is estimated as an annualised impact on interest expense of such change in interest rates. The analysis is performed on the same basis for 2009.

(iii) For ensuring the certainty of a proportion of funding costs, the Group has entered into a floating-to-fixed interest rate swap with notional amounts totalling $57 million with maturity of 18 months expiring in March 2012. Effectively, this arrangement has locked in interest rates of approximately 1.5% p.a. before expiry.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk

The Group's business is principally conducted in RMB except that the convertible bonds and promissory notes are denominated in Hong Kong dollar (HK$). The functional currency of the Group's subsidiaries in the PRC is RMB and they did not have significant monetary assets or liabilities denominated in currencies other than RMB. The functional currency of the Group's subsidiaries outside the PRC is HK$ and they did not have significant monetary assets or liabilities denominated in currencies other than HK$. As a result, the exchange rate risk is not significant for the Group.

The Group has not entered into any forward exchange contract.

(e) Fair values

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010 and 2009 except as follows:

	2010		2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$'000	**$'000**	$'000	$'000
Convertible bonds	**1,368,839**	**1,385,134**	1,267,706	1,372,229

The fair value of liability portion of convertible bonds is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

34 COMMITMENTS

(a) Capital commitments contracted but not provided for in the financial statements were as follows:

	The Group		**The Company**	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Contracted for land and development costs in respect of property development activities	**839,382**	559,203	**–**	–

34 COMMITMENTS *(Continued)*

(b) At 31 December 2010, the total future minimum lease payments regarding properties under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Within 1 year	**243**	135	**–**	–
After 1 year but within 5 years	**41**	–	**–**	–
	284	135	**–**	–

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 5 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

35 CONTINGENT LIABILITIES

The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate upon the completion of construction; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the mortgages. The directors of the Company are of the view that the fair value of financial guarantee is not significant.

The amount of guarantees given to banks for mortgage facilities granted to the purchasers of the Group's properties at the end of each reporting period is as follows:

	2010	2009
	$'000	$'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	**392,732**	105,241

The directors also consider that the fair market value of the underlying properties is able to cover the outstanding mortgage loans in the event of default payments by the purchasers to the banks.

36 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 is as follows:

	2010 **$'000**	2009 $'000
Short-term employee benefits	**4,305**	2,104

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Underwriting commission paid to a major shareholder and director

Mr Chen, a director and shareholder of the Group, has entered into an underwriting agreement with the Company in connection with the rights issue as detailed in note 32 (c)(iii). Pursuant to the underwriting agreement, the Group owed Mr. Chen underwriting commission of $1,735,000.

(c) Other related party transactions

In respect of a loan advanced to a director, please refer to note 19 for details.

In respect of promissory notes and convertible bonds payable to a director, please refer to notes 27 and 29 respectively for details.

Other amounts due from/to related parties are set out in note 22 and 25.

37 ACCOUNTING JUDGEMENT AND ESTIMATES

Judgements and estimates used in preparing the financial statements are evaluated and based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Investment property

The best evidence of fair value is current prices in an active market for the properties with similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

— current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

— recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

— discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

(b) Income taxes

(i) PRC Corporate Income Tax

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

(Expressed in Hong Kong dollars unless otherwise stated)

37 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

(b) Income taxes *(Continued)*

(ii) PRC Land Appreciation Taxes

The Group is subject to Land Appreciation Taxes in the PRC. However, the implementation and settlement of these taxes varies among tax jurisdictions in cities of the PRC, and the Group has not finalised its PRC Land Appreciation Taxes calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related taxes. The Group recognised these PRC Land Appreciation Taxes based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax in the years in which such taxes have been finalised with local tax authorities.

(iii) Deferred tax assets and liabilities

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management consider to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different. Deferred tax liabilities relating to certain temporary differences are recognised when the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax charge in the year in which such determination is made.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group:

			Effective for accounting period beginning on or after
—	Revised HKAS 24	*Related party disclosures*	1 January 2011
—	Improvements to HKFRSs 2010		1 July 2010 or 1 January 2011
—	Amendments to HKAS 12	*Income taxes*	1 January 2012
—	HKFRS 9	*Financial Instruments*	1 January 2013

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010 *(Continued)*

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

39 SUBSEQUENT EVENTS

(a) Proposed sale of Right Strong Limited

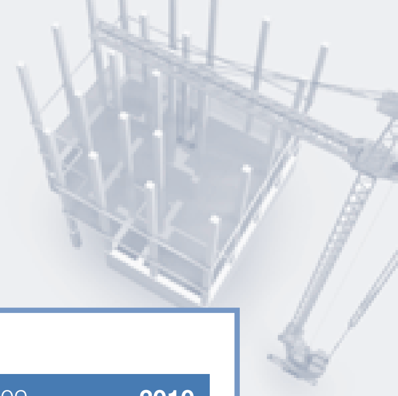
On 3 March 2011, the Group entered into a conditional agreement to dispose of the entire equity interest in Right Strong Holdings Limited for a consideration of HK$149.9 million, subject to adjustment. Upon completion of the transaction, the segment for "Projects in Zhejiang Province" as set out in note 12 to the financial statements will be disposed of. For further details, please refer to the announcement and circular dated 10 March 2011 and 28 March 2011, respectively.

(b) Lease commitment

On 18 January 2011, the Group entered into a lease agreement with a tenant, in which the tenant will rent the entire retail portion of the Hengli City property development project. The lease agreement became unconditional on 4 March 2011. Please also refer note 20 to the financial statements for further details.

(c) Acquisition of land use right

On 15 March 2011, the Group successfully acquired the land use right of a piece of land in Fuzhou through bidding process for a consideration of RMB1,200,000,000. The land occupies an area of approximately 42,125 sq. m and shall be used for property development purposes.



Financial Summary

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

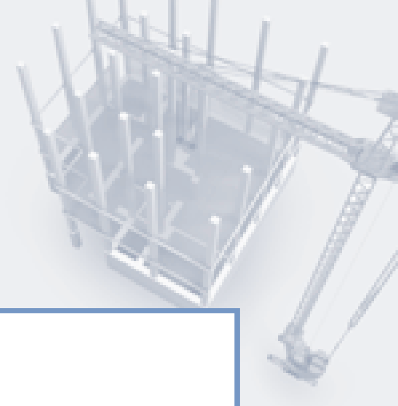
	Year ended 31 December				
	2006 HK$'000 (Restated)	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
RESULTS					
Turnover	56,682	136,321	149,029	426,086	**174,379**
(Loss)/profit before taxation	1,460	83,953	(555,146)	146,546	**(69,524)**
Income tax (expense)/credit	(40,570)	(57,982)	25,009	(63,070)	**(10,256)**
(Loss)/profit for the year	(39,110)	25,971	(530,137)	83,476	**(79,780)**
(Loss)/profit attributable to equity shareholders of the Company	(22,469)	18,406	(503,523)	11,217	**(102,911)**
Minority interests	(16,641)	7,565	(26,614)	72,259	**23,131**
(Loss)/profit for the year	(39,110)	25,971	(530,137)	83,476	**(79,780)**

	At 31 December				
	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	642,708	766,003	3,997,214	4,648,574	**5,703,955**
Total liabilities	(332,402)	(408,665)	(3,772,422)	(4,372,374)	**(5,293,577)**
Net assets	310,306	357,338	224,792	276,200	**410,378**
Equity attributable to equity shareholders of the Company	256,919	294,388	135,942	116,908	**222,331**
Non-controlling interests	53,387	62,950	88,850	159,292	**188,047**
Total equity	310,306	357,338	224,792	276,200	**410,378**

Property Portfolio

1 MAJOR PROPERTIES UNDER DEVELOPMENT

Location	Intended use	stage of completion	Expected date of completion	Gross Site area (Sq m)	floor area (Sq m)	Group's interest (%)
A piece of land in Long Shan Zhen, Cixi, Ningbo	Commercial	Under development	Dec 2012	17,514	28,976	26.25%
Phase II of Shengshi Jiayuan Chang Xing Road Hongtang Zhong Venture Center Jiangbei District, Lot No.6 Ningbo	Residential and Commercial	Under development	Nov 2012	33,136	58,983	37.50%
Hengli City No. 128 Wusi Road Gulou District Fuzhou City, Fujian	Residential and Commercial	Under development	Dec 2011	24,982	241,600	95%
Hengli financial Centre North Hudong Road Centre Gulou District Fuzhou City, Fujian	Commercial	Under development	Jan 2012	6,035	50,336	100%



2 MAJOR PROPERTIES HELD FOR RESALE

Location	Intended use	floor area (Sq m)	Group's interest (%)
Hongtang Zhong Road Jiangbei District, Ningbo	Commercial	13,174	33.75%
Fanjing Garden (Phase III) 288 Yuchai Road, Yonghong Village Wantou County, Ningbo	Commercial Residential	61 828	37.50% 37.50%
Jinxiu Garden Fortune Garden (Phase I & II) Zhongxing Road East, Ningbo	Residential	281	65,625%
Wenjing Garden Fortune Garden (Phase IV) Zhongxing Road East, Ningbo	Residential Carpark	83 133	65,625%
盛世桃源 Xinan Xikou Town Fenghua, Ningbo	Residential	1,546	37.50%
盛世嘉苑 (Phase I) Chang Xing Road Hongtang Zhong Venture Centre Jiangbei District, Lot No.6, Ningbo	Residential Commercial Carpark	233 2,103 1,575	37.50%

3 MAJOR PROPERTIES HELD FOR INVESTMENT

Location	Existing use	Term of lease
Shop No. 1-15 to 1-18, 354-360 Hongtang Zhong Road Jiangbei District, Ningbo	Commercial	Medium
Portion of levels 1 and 2, No. 416, 416-1 and 416-2 Cuibo Road Jiangbei District, Ningbo	Commercial	Medium
Unit 9-603, No. 49 Jinxiu Garden Zhangshu Road Jiangdong District, Ningbo	Commercial	Medium
Yaojiang New Centre Intersection of Hongtang Zhong Road And Changyang Road	Commercial	Medium
Portion of Jiangbei Zhongcheng, Changyang East Road, Jiangbei District, Ningbo, Zhejiang Province, PRC	Commercial	Medium

4 MAJOR PROPERTIES HELD FOR OWN USE

Location	Existing use	Gross Floor area (sq m)	Group's interest (%)
House No. 51, Tongfangyuan, Baita East Road, Pingjiang District, Suzhou, Jiangsu Province, the PRC	Currently unoccupied	130	37.50%
Fanjing Garden, 282-286 Yuchai Road, Yonghong Village, Wantou County, Ningbo	Clubhouse	960	37.50%
	Commercial	369	37.50%
Fanjing Garden, 288 Yuchai Road, Yonghong Village, Wantou County, Jiangbei District,' Ningbo, Zhejiang Province, the PRC	Kindergarden	2,254	37.50%

4 MAJOR PROPERTIES HELD FOR OWN USE *(Continued)*

Location	Existing use	Gross Floor area (sq m)	Group's interest (%)
Portion of Levels 1 to 3, Nos. 271-1, 273, 275 and 275-1 Fangjiangan Road, Jiangbei District, Ningbo, Zhejiang Province, the PRC	Office	1,726	37.50%
Unit 3401, 34/F Tower Two Lippo Centre 89 Queens Way Hong Kong	Office	157	100%
No. 327, 331-1, 339, 341, 341-1, 361, Zhongxing Road, Jiangdong District, Ningbo, Zhejiang Province, the PRC	Commercial	830	65.625%
No. 1, 111-121 Zhangshu Street, Ningbo, Zhejiang Province, the PRC	Commercial	1,141	65.625%
Shop Nos, 1-1 and 1-2, 1 Zhangshu Street, Jiangdong District, Ningbo, Zhejiang Province, PRC	Commercial	52	65.625%