天譽置業（控股）有限公司
SKYFAME REALTY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 00059)

An Artist's Impression of the Zhoutouzui Project

Annual Report 2011

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

YU Pan *(Chairman and Chief Executive Officer)*
SIU Shawn *(Deputy Chief Executive Officer)*
WONG Lok

Independent Non-executive Directors:

CHOY Shu Kwan
CHENG Wing Keung, Raymond
CHUNG Lai Fong

COMPANY SECRETARY

CHEUNG Lin Shun

AUDIT COMMITTEE

CHOY Shu Kwan *(Chairman)*
CHENG Wing Keung, Raymond
CHUNG Lai Fong

REMUNERATION COMMITTEE

CHUNG Lai Fong *(Chairman)*
CHOY Shu Kwan
CHENG Wing Keung, Raymond
YU Pan

NOMINATION COMMITTEE

YU Pan *(Chairman)*
CHOY Shu Kwan
CHENG Wing Keung, Raymond
CHUNG Lai Fong

SHARE LISTING

Main Board of The Stock Exchange of Hong Kong Limited, Stock Code: 00059

AUDITOR

BDO Limited
Certified Public Accountants

COMPANY'S WEBSITE

http://www.sfr59.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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8 Linhe Zhong Road, Tianhe District
Guangzhou, Guangdong Province, the PRC
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton, HM 11, Bermuda

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited
6 Front Street, Hamilton, HM 11, Bermuda

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Industrial and Commercial Bank of China (Asia) Limited

LEGAL ADVISERS

Hong Kong Laws:
Sidley Austin
Leung & Associates
Bermuda Laws:
Conyers Dill & Pearman
PRC Laws:
廣東國鼎律師事務所
(Guangdong Guardian Law Firm)

CHAIRMAN'S STATEMENT

Since the completion of its debt rescheduling with the convertible noteholders and creditors in late 2010, the Company, along with other market players, has encountered yet another challenging year after the collapse of Lehman Brothers in 2008. In 2011 the global economy faced more turbulence brought on by the deteriorating sovereign debt situation in some of the European countries. The slowdown in economic activities in these countries and the United States is also affecting the economic performance of China, the growth engine of the global economy, with the impact of slowing output growth. In addition, the year-long austerity measures imposed by the China government to curtail the overheated property sector had also resulted in a relatively slow year for all property developers in China.

Despite these difficulties, the Company has reached some highly anticipated key milestones in the development of its projects. During the year, the management has obtained the work permit for Phase One of Zhoutouzui Project for which the preliminary construction works had commenced. The pre-sale performance of properties under construction in Phase Two at Guiyang Project has been above expectations in spite of the poor market sentiment that is adversely affected by Government restrictions over the purchase of properties. The management has moved progressively in the development of its projects and has not stopped to search for new projects with profit potential for future expansion. During the year, we had entered into a framework agreement with the City Government of Yongzhou, Hunan Province, which turned the key for the development of residential and commercial properties with a total GFA of approximately 1.6 million sq.m. within six years. The first lot of land occupying a GFA of about 200,000 sq.m. was acquired near the year-end. Adding this transaction to the existing projects, the Group currently has a land bank and property interests covering a total GFA of 1.1 million sq.m. in Guangzhou, Guiyang and Yongzhou, all in the south-west and southern part of China. The management is also currently in negotiation with the City Government of Nanning, Guangxi Province, for acquisition of a site for development of residential and commercial properties with a total GFA of approximately 1 million sq.m..

The Group has a very low leveraged position compared with its peers. This comparative advantage enables the Group to obtain additional financing even in the currently restricted banking and financial environment that makes facilities to developers almost impossible. Since the resumption of the trading of shares of the Company in March, 2011, we have raised a corporate debt of HK$200 million for our existing projects. In light of the uncertain global economic outlook, we foresee that monetary authorities in major economies in the world may implement looser monetary measures and the China government will at some suitable point of time adjust its restrictive measures in the property and banking sectors to boost the market. The management will closely monitor its business plans and the market situation to ensure that their objectives are feasible and are prudently drawn up to anticipate possible risks and threats in the coming years. The management is confident that sufficient financing can be obtained at both corporate and project levels to finance the development of existing projects and any other new business opportunities when they arise.

We understand that it is crucial to build up professional manpower to enhance our ability to execute the plans set by the senior management. Towards this end, the Company had devoted particular resources during the year in the development of new operations procedures and training programs in promoting corporate culture and the professionalism and motivation of staff. In the coming year, we will continue to allocate resources and exert effort to strive for the achievement of these objectives.

CHAIRMAN'S STATEMENT

We have been a prominent player in the market with a decade-long focus on high-end properties in China and this strategic direction has not been changed. We still intend to focus on the property development and lead the management team in the coming year, notwithstanding all the difficulties we may confront. We truly appreciate the support extended to us during these challenging times during the year by our customers, contractors and suppliers, bankers and employees. We wish to take this opportunity to express our sincere gratitude to these business partners, while reaffirming that we will endeavor to achieve our mission and remain a trustworthy developer who brings a high standard of quality to our customers.

YU Pan
Chairman

Hong Kong, 23 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business review

For the year, the Group's total turnover was RMB33 million, representing a drop of 91% when compared with last year. The drop in revenue was attributable to the fact that revenue for the year consists only of sales of the remaining property units in Guiyang Project phase 1 whilst contracted sales of units in phase 2 that will be delivered in 2012 are not accounted for as revenue for the year. Other than the sale of properties developed, the Group maintains leasing income of RMB19 million for the year mainly from the commercial floors at the Tianyu Garden Phase II and rented retail shops and carparks in the development of Guiyang Project.

Overall operating expenses (selling and marketing expenses plus administrative and other expenses) for the year were increased by 91% to RMB124 million. The increase was reflected in the increased staff costs, a major overhead content representing 28% of total operating expenses, as a result of the rise in headcount and pay levels, and non-recurring payments of mainly commission of RMB38 million to agent for the sale of the stake interest in 廣州寰城實業發展有限公司 (Guangzhou Huan Cheng Real Estate Development Co. Ltd.) ("**Huan Cheng**"). In addition, to boost the pre-sales performance of the Guiyang Project, marketing expenses rose to RMB11 million from RMB9 million.

The post-tax loss for the year was RMB62 million (2010: post-tax profit of RMB881 million), having included a gain on revaluation of investment properties of RMB15 million (2010: RMB113 million) and finance cost of RMB9 million (2010: RMB143 million). The Group's low borrowing level explains the substantial decrease in finance costs. The profit for the previous year was mainly resulted from the reduction in debts as an outcome of a compromise with the holders of convertible notes and creditors of a term loan leading to a gain of RMB934 million.

Properties development

Yongzhou Project

To expand the Group's land bank for future development, the Company entered into an agreement with the City Government of Yongzhou, Hunan province empowering certain subsidiaries in which the Group holds a 70% equity stake interest to develop a composite property development project in Yongzhou. The project, offers a total site area of 1,000 mu on which a GFA of about 1.6 million sq.m., will be developed into residential, commercial complex and retail shops. The first phase of the development will be built on a land of 106 mu which land title was obtained in late 2011 for the development of residential properties consisting of villas, apartments and retail shops in a total GFA of 212,000 sq.m. As a condition to the development, the project company is obligated to manage the remodelling works of certain scenic spots in the city surrounding the development sites. The entire project has a development period of 6 years.

In addition to the new Yongzhou Project, the Group also holds development rights in two other development projects and a sold project for which obligations in construction of the project are yet to complete. The status of these projects is as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

Guiyang Project

The development, which the Group holds a 55% stake, consists of high-end residential apartments of a total GFA of approximately 460,000 sq.m. for residential apartments and GFA of approximately 132,000 sq.m. for commercial complex, community facilities and carparking spaces. Out of the first phase of the development with GFA totaling 134,000 sq.m. that was completed in 2010, about 98% had been sold since the completion of construction in 2010. Sale revenue of those remaining units sold during the year was recorded as revenue for the year. Completion of phase two of the project is being finalised and is expected to take place in late 2012. Up to the date of this report, the pre-sale of phase two reached 72% of the total available saleable area which were contracted at an average price of RMB4,500 per sq.m. generating a total pre-sale revenue RMB525 million that will be recognised in the year 2012. The third phase of the project, consisting of five residential buildings with common facilities and carparking spaces of GFA of 245,000 sq.m., is under construction and is expected to be completed in 2014.

Zhoutouzui Project

The project is held by a sino-foreign cooperative joint venture enterprise which is jointly controlled by the Group and two other independent third parties, namely 廣州越秀企業(集團)公司 (Guangzhou Yuexiu Enterprise (Group) Company Limited) and 廣州港集團有限公司 (Guangzhou Port Group Co., Limited), the former being the original land use right holder with no vested interest in the project and the latter being an original user of the land who is entitled to share 28% in GFA of the completed properties pursuant to a joint venture agreement entered into in 2001 which stipulates that the Group has to finance all construction costs of the entire development.

The development on the site of 43,609 sq.m. consists of 7 towers of residential apartments, offices, hotel, service apartments, underground car parking facilities and a commercial complex in a total GFA of approximately 320,000 sq.m.. The site, opposite to the renounced White Swan Hotel, offers a full waterfront view of the Pearl River. The project company has obtained the land use right certificate for the site and construction permit for phase one of a GFA of 97,000 sq.m. where preliminary construction works have commenced. The construction permits for the remaining approximately GFA of 223,000 sq.m. are expected to be received in the second quarter of 2012 when construction of the entire development will be commenced in full force.

Tianhe Project

The equity interest in the project company, Huan Cheng, was sold to a third party in late 2010 at a gross consideration of RMB1.09 billion before deduction of finance and other costs which are yet to be ascertained. Payments totalling RMB858 million have been received from the purchaser so far. As the Group is obliged to bear overruns of construction costs and indemnify the timely completion of the construction of the properties within the agreed timeline, the criteria for recognition of revenue set out in HKFRSs have not been met. The revenue cannot be ascertained at the moment and is not recognised in the current year and deferred to a time when substantial part of such revenue can be ascertained reliably. The construction of the Project was started in 2011 and the foundation works are close to completion. Given the current progress of the construction of properties, the directors expect that the construction will be completed in 2014 when the sale transaction can be recorded and the revenue and associated cost recognised.

As at 31 December 2011, the Group's projects on hand renders a land reserve for property development of a total GFA of approximately 1.1 million sq.m., all of which will be put under construction during the year 2012 of which approximately 213,000 sq.m. will be completed during the year 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group also holds an investment property with details as follows:

Investment property

A 20,000 sq.m. commercial podium at Tianyu Garden Phase II in Tianhe District, Guangzhou. The property is now 86% occupied, tenanted with renowned corporations and a US consulate.

Outlook

In the past year, the European sovereign debt crisis and the stringent austerity measures taken by the central government of the PRC imposed on the real estate developers has left the field players tightened financial resources and a depressed demand for mainland properties. Nonetheless, thanks to the reduced leverage, the Group has been able to contest the threats by obtaining additional financing to help in the development of its projects. With the comparative advantage of low leverage, the Group is in a better position to sustain a stable growth in its business.

In the recent months, the global markets are becoming stable while the debt crisis in Greece has been temporarily settled. We are in solid belief that the market outlook will become clearer when the central government will adopt a more lenient approach in its control measures towards developers. Having said, however, the Directors will not overlook the market risks and remain prudent in its business strategies, but at the same time, will continue to seek suitable and affordable opportunities to sustain a steady growth in the Group's future business. Apart from the newly acquired Yongzhou Project, during the year under review, the Group won a bid for the right to develop a project in a new town in Nanning, Guangxi province for a residential development with a GFA of approximately 1,000,000 sq.m.. Binding agreement will be entered into subject to successful negotiations with the district government of Nanning about the detailed terms of the development later in the year 2012. The investment, if crystalised, will further enhance the cash flow and earnings of the Group in the coming few years.

LIQUIDITY AND FINANCIAL RESOURCES

Capital structure and liquidity

As at 31 December 2011, the Group is indebted to a commercial bank for a working capital and construction costs totaling RMB129 million, two money market loans totaling US$67.7 million (equivalent to RMB425 million) secured by two short-term bank deposits totaling RMB488 million, secured bonds in the principal value of HK$200 million (equivalent to RMB152 million) with warrants (carrying amount of RMB4 million) issued to the holder of the bonds, other unsecured borrowing due to a third party of RMB80 million and advances from non-controlling shareholders of a subsidiary totaling RMB168 million. These indebtedness, exclusive of the money market loans, totaling RMB533 million represents a mild increase of RMB37 million when compared with the corresponding balance in last year.

The indebtedness excludes deferred income of RMB977 million which is represented by the estimated net consideration received and receivable from the disposal of Tianhe Project for which the related revenue will be recognised at the time when the revenue relating to the performance of the obligations of the Group can be ascertained.

MANAGEMENT DISCUSSION AND ANALYSIS

The gearing ratio of the Group was 14.7% (2010: 21.3%), based on the net debt of RMB271 million (represented by total indebtedness of RMB958 million comprising bank and other borrowings, money market loans, bonds, loans from non-controlling shareholders, net of cash and bank balances and bank deposits securing for the money market loans) to the equity attributable to ordinary shareholders of the Company plus net debt as at 31 December 2011. The ratio dropped as a reflection of the higher free cash level maintained by the Group as at the year-end date.

During the year, construction works of all projects, other than Tianhe Project, the construction of which is managed by the Group as a project manager, have commenced and hence related development costs incurred in these projects were reclassified as current assets. Current assets, totaling RMB3,056 million as at 31 December 2011, show a marked increase of RMB1,512 million from last year. Apart from the properties under development amounting to RMB1,917 million, the current assets at the current year-end date comprise mainly completed properties for sale of RMB107 million, consideration receivable arising from the disposal of Huan Cheng of RMB112 million, restricted and pledged deposits of RMB556 million of which RMB488 million are restricted deposits of used to secure for the money market loan facilities and RMB68 million pre-sale proceeds received from buyers restricted for payment of construction costs incurred in the Guiyang Project, and deposits made to contractor of Zhoutouzui project and other deposits totaling RMB123 million.

Total current liabilities amounted to RMB1,426 million which showed an increase of RMB377 million. The current liabilities at the current year-end date comprise, other than the indebtedness of secured money market loans, the current portion of loans for working capital and construction costs financing due to commercial banks, advances from non-controlling shareholders of a subsidiary and unsecured loan due to a third party as mentioned above, also consisted of advanced payments received from buyers of presold properties of RMB477 million, miscellaneous items in trade payables, other payables and accruals totaling RMB126 million and income tax payable of RMB83 million.

As the effect on the surge in current assets, the current ratio shows marked improvement which is 2.14 times at the current year-end (2010: 1.47 times).

Borrowings and pledge of assets

As at 31 December 2011, to secure for banking facilities granted to operating subsidiaries to finance for working capital and construction costs by a commercial bank in mainland China, mortgages of property interests in Tianyu Garden Phase II and works in progress and the land of the Guiyang Project were mortgaged in favour of the lending bank. Besides, to secure for the completion of construction of the Guiyang Project, bank deposits of money received from property buyers of approximately RMB68 million were restricted to the paying of construction costs of properties under construction. To secure the back-to-back guarantees given by two local banks in mainland China to a Hong Kong-based bank for money market loan facilities of US$67.7 million, bank deposits of approximately RMB488 million were placed in bank accounts in mainland China. The bonds in the principal value of HK$200 million issued during the year were secured by the 963,776,271 shares of the Company, constituting 65.2% of the total issued shares of the Company held indirectly by Mr. YU Pan, the controlling shareholder of the Company, and a personal guarantee of Mr. YU.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN CURRENCY MANAGEMENT

The Group is principally engaged in property development activities which are all conducted in the PRC and denominated in RMB, the functional currency of the Company's principal subsidiaries. At the same time, certain financing activities of the Group are denominated in other currencies, such as the money market loans and the guaranteed bonds which are in US dollars and Hong Kong dollars respectively.

Due to the steady appreciation of RMB against HK and US dollars during the year, a foreign exchange gain arises on consolidation of the assets and liabilities of the Hong Kong subsidiaries, resulting an exchange reserve of RMB0.3 million as at 31 December 2011 that is added to the equity of the Company. Since the US and HK dollars are pegged whilst RMB moves in gradual and upward trend against the US and HK dollars, the Group foresees no significant possible foreign currency adverse exposure in the foreseeable future but appreciations in the exchange rates of RMB against HK and US dollars. Such fluctuations will not have unfavourable effect on the financial position of the Group. For these reasons, the Group does not hedge against its foreign currency risk. However, any permanent or significant changes in the exchange rates in RMB for HK and US dollars and in the peg system of US dollars with HK dollars may have possible impact on the Group's results and financial position.

CONTINGENT LIABILITIES

The Group provides guarantees to the extent of RMB383 million as at 31 December 2011 (2010: RMB184 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying 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. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.

EMPLOYEES

To keep pace with the growth of the Group after the acquisitions of projects, the Group recruits suitable staff in capable caliber. As at 31 December 2011, other than the Executive Directors, the Group employed 189 staff for property development and central management. Employees are remunerated according to qualifications and experience, job nature and performance. Remuneration packages are aligned with job markets in the business territories.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YU Pan *(Chairman and Chief Executive Officer)*

Aged 47, joined the Company in December 2004 when he took control of the Company through acquisition of a controlling interest in the Company. Mr. YU has over 22 years of experience in the development of high-end residential, commercial and hotel projects in the PRC. He is a founder of the prestigious real estate company, Guangzhou Tianyu Real Estate Development Company Limited, which was set up in July 1997 from which the Company acquired some projects in 2007. Mr. YU oversees the strategic planning and corporate development of the Group.

Mr. SIU Shawn *(Deputy Chief Executive Officer)*

Aged 40, joined the Company in August 2011 and was appointed as executive director in September 2011. Mr. SIU graduated from Beijing Normal University (北京師範大學) and holds a Bachelor's Degree in Chinese Language. He is also a postgraduate in Economic Law from Southwest University of Political Science and Law (西南政法大學) in Chongqing, the PRC. Mr. SIU has vast experience of over 18 years in business sector and worked in senior posts in certain property development related business and environmental protection enterprise in the PRC.

Mr. WONG Lok

Aged 54, joined the Company in August 2005. Mr. WONG has over 26 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOY Shu Kwan

Aged 57, joined the Company in December 2004. Mr. CHOY holds a Master degree in Business Administration and has over 27 years of extensive experience in banking and investment management. He worked for the CITIC group for 20 years in Hong Kong. Before his resignation in 2007, he was the managing director of CITIC Capital Markets Limited. Mr. CHOY is also an independent non-executive director of Poly (Hong Kong) Investments Limited.

Mr. CHENG Wing Keung, Raymond

Aged 52, joined the Company in December 2004. Mr. CHENG is a practising solicitor in Hong Kong. He holds an honour degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. CHENG also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, PRC. He has over 24 years of experience in corporate, company secretarial and listing affairs. At present, Mr. CHENG is an independent non-executive director in three other listed companies in Hong Kong, namely China Investment Fund Company Limited, Emperor Capital Group Limited and Sino Resources Group Limited.

Ms. CHUNG Lai Fong

Aged 44, joined the Company in December 2004. Ms. CHUNG is a practising barrister in Hong Kong. She holds a Bachelor of Laws (Honours) degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. She is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. Ms. CHUNG has over 16 years of professional experience in accounting, taxation, company secretarial, regulatory and corporate affairs. Ms. CHUNG is also an independent non-executive director of Far City Mining Limited, a company listed on Canadian National Stock Exchange.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Ms. CHEUNG Lin Shun

Aged 49, joined the Company in March 2005. Ms. CHEUNG is a professionally qualified accountant in Hong Kong and is in charge of the financial, accounting and company secretarial matters at the corporate level of the Group. She holds a Master degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. CHEUNG is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 26 years of experience in auditing, corporate secretarial, accounting and corporate finance obtained from an international accounting firm and a number of listed companies in Hong Kong.

SENIOR MANAGEMENT

Mr. WEN Xiao Bing

Aged 43, is the Deputy Chief Executive Officer of the Group and Chief Executive of Guangzhou head office in charge of overall management of the property development business in the PRC. Mr. WEN holds a Bachelor Degree in History from Beijing University (北京大學) and is a professional qualified economist specialised in labor economics in the PRC. He has over 21 years of working experience in managerial positions in corporations in the PRC.

Mr. LIN Sheng Jie

Aged 46, is the Deputy Chief Executive of Guangzhou head office in charge of all general finance operations in the PRC. Mr. LIN is a Bachelor Degree graduate in finance and accountancy of Guangdong University of Business Studies (廣東商學院) and has over 21 years of working experience in the finance and accounting operations in property development, finance and hotel investment industries in the PRC, Thailand and Hong Kong.

Mr. LI Le Wei

Aged 55, is the Deputy Chief Executive of Guangzhou head office in charge of the overall operations of Yongzhou project. Mr. LI graduated from Guangdong Radio & TV University (廣東廣播電視大學) and has over 24 years of working experience in hotel and property management in Guangzhou.

Ms. YUAN Hong Fang

Aged 40, is the Deputy Chief Executive of Guangzhou head office in charge of overall administration, human resources and information management of Guanzhou head office. Ms. YUAN graduated from Lingnan College, Sun Yat-sen University (中山大學嶺南學院) and holds a Master Degree in Business Management. She has over 17 years of working experience in finance, administration in the property management industry.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhance its corporate governance standards by emphasizing transparency, independence, accountability, responsibility and fairness. The Company exercises corporate governance through the board of directors of the Company (the "**Board**") and various committees with designated functions. The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") throughout the year ended 31 December 2011.

None of the directors of the Company (the "**Directors**") is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2011 financial statements, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except for code provision A2.1, where the roles of chairman and chief executive officer of the Company is not separated as required but is currently performed by the same individual. Explanation on the deviation is elaborated below under the heading of "Chairman and Chief Executive officer".

DIRECTORS' SECURITIES TRANSACTIONS

Other than the governance through the Board and the committees, the Company has adopted the code of conduct regarding the Directors' securities transactions in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year under review.

BOARD OF DIRECTORS

As at 31 December 2011, the Board comprised seven Directors as follows:

Executive Directors

Mr. YU Pan *(Chairman and Chief Executive Officer)*
Mr. SIU Shawn *(Deputy Chief Executive Officer, appointed on 1 September 2011)*
Mr. WONG Lok
Mr. LAU Yat Tung, Derrick *(Deputy Chairman, office terminated on 9 January 2012) (note)*

Note: Mr. LAU Yat Tung, Derrick's office was terminated on 9 January 2012 due to his ill health.

Independent Non-executive Directors

Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

The terms of service of all the Independent Non-executive Directors are one year and are subject to automatic renewal.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

The Board held five meetings in 2011. The record of attendance of each Director is as follows:

Name of Director	Number of Board Meetings Attended
Executive Directors	
Mr. YU Pan *(Chairman and Chief Executive Officer)*	4/5
Mr. SIU Shawn *(Deputy Chief Officer, appointed on 1 September 2011)*	1/1
Mr. WONG Lok	4/5
Mr. LAU Yat Tung, Derrick *(Deputy Chairman, office terminated on 9 January 2012)*	5/5
Independent Non-executive Directors	
Mr. CHOY Shu Kwan	5/5
Mr. CHENG Wing Keung, Raymond	5/5
Ms. CHUNG Lai Fong	5/5

The Board is responsible for formulating and reviewing the long-term business directions and strategies, monitoring the operating and financial performance of the Group, and performing the corporate governance duties. Management is delegated by the Board with the authority to make decisions on daily operations. Both the Directors and management interacted frequently to ensure efficient communications between the parties.

To the best knowledge of the Company, there is no financial, business and family relationship among members of the Board and between the Chairman.

The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In pace with the business development and growth of the Group, the Group currently maintains a small but efficient staff force in the daily operations of the property development business. Due to the small size of the management team, both the roles of the Chairman and Chief Executive Officer of the Company are currently played by Mr. YU Pan. The Board considers the currently simple but efficient management team serves sufficiently enough the need of the Group. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the management team to ensure a proper balance of power and authority within the Company.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

As at 31 December 2011, the Remuneration Committee comprises four Directors: the Chairman of the Board, Mr. YU Pan and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond, Ms. CHUNG Lai Fong (Chairman of the Remuneration Committee).

The Remuneration Committee held two meetings in 2011 and all the members attended both meetings. The matters discussed included (i) the review of incentive bonus paid to directors and senior management for 2010; (ii) the determination of the basis for the grant of share options; (iii) the review and adoption of the revised terms of reference of the Remuneration Committee; and (iv) the approval of compensation payable to Mr. LAU Yat Tung, Derrick, the former Deputy Chairman, upon his termination of service in January 2012.

The major roles and functions of the Remuneration Committee which have been revised in January 2012 are as follows:

1. to make recommendations to the Board on the overall remuneration policy and structure for all directors and senior management;

2. to review and approve the management remuneration proposals with reference to the Board's corporate goals and objectives;

3. to make recommendations to the Board on the remuneration of individual executive director and senior management;

4. to make recommendations to the Board on the remuneration of non-executive directors;

5. to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment; and

6. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct and removal of directors.

The terms of reference of the Remuneration Committee has been published on the Stock Exchange's and the Company's websites for shareholders' information.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The composition of the Nomination Committee and the record of attendance of each member are as follows:

	Number of meeting attended
Executive Directors	
Mr. YU Pan *(Chairman of the Board and the Nomination Committee)*	2/3
Mr. LAU Yat Tung, Derrick *(ceased to act as member from 9 January 2012)*	3/3
Mr. WONG Lok *(ceased to act as member from 9 January 2012)*	2/3
Independent Non-executive Directors	
Mr. CHOY Shu Kwan	3/3
Mr. CHENG Wing Keung, Raymond *(acted as member from 9 January 2012)*	N/A
Ms. CHUNG Lai Fong *(acted as member from 9 January 2012)*	N/A

The Nomination Committee held three meetings in 2011 to (i) recommend the retiring Directors for re-election in 2011 Annual General Meeting, (ii) review and adopt the revised terms of reference of the Nomination Committee, and (iii) invite Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong to act as member of the Nomination Committee.

The major roles and functions of the Nomination Committee which have been revised in January 2012 are as follows:

1. to set up the fundamental and objective standards required from directors and make recommendations on the appointment procedure of directors;

2. to select or make recommendations to the Board on selection of directors from individuals nominated for directorship;

3. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and to make recommendations on any proposed changes to the Board complementing the Group corporate strategies;

4. to assess the independence of independent non-executive directors;

5. to make recommendations to the Board on the appointment or re-appointment of directors and succession plan for directors, in particular the chairman and the chief executive; and

6. to review and approve the policy on part-time work performed for organisations outside the Group by directors and senior management.

The terms of reference of the Nomination Committee has been published on the Stock Exchange's and the Company's websites for shareholders' information.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

As at 31 December 2011, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. CHOY Shu Kwan (Chairman of the Audit Committee), Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

The Audit Committee held three meetings in 2011 and all members attended. The matters discussed in the meetings included: (i) to review the financial statements for the year ended 31 December 2010 and the six months ended 30 June 2011 before submission to the Board for approval; (ii) to consider the findings disclosed in the bi-annual internal audit reports prepared by the Internal Audit Department, (iii) to review the effectiveness of the Group's internal controls with discussion with the Chief Internal Auditor, (iv) to preliminarily review and discuss the impact of the change of presentation currency on the 2011 financial statements, and (v) to review and adopt the revised terms of reference of the Audit Committee. The external auditor and Chief Internal Auditor were present at the meeting held on 11 March 2011 to present their findings to the committee members on the audit of the financial statements for the year ended 31 December 2010 and the bi-annual internal audit report for year 2010.

The major roles and functions of Audit Committee are as follows:

1. to review the integrity of accounts and financial reporting procedures;

2. to review and oversee the effectiveness of internal control systems;

3. to appoint external auditor and assess their qualifications, independence and performance; and

4. to review periodically the Company's and the Group's accounts to comply with applicable accounting standards, legal and regulatory requirements on financial disclosures.

The terms of reference of the Audit Committee has been published on the Stock Exchange's and the Company's websites for shareholders' information.

In a meeting held on 11 March 2011, the Audit Committee reviewed the Group's annual results for the year ended 31 December 2010.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

Messrs. BDO Limited was re-appointed by the shareholders as the Company's auditor during 2011. Their engagement of the audit for 2011 has been reviewed and approved by the Audit Committee by a written resolution dated 17 February 2012.

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

Nature of service	**Fees paid/payable** *RMB'000*
Audit services	
– Current year	854
– Disbursements in 2010	27
Non-audit services *(note)*	
– In relation to very substantial acquisition of the Company	200
TOTAL	**1,081**

Note: The non-audit services provided was in relation to the acquisition of land use rights in Yonzhou City, Hunan Province, the PRC as disclosed in the Company's circular dated 25 August 2011.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's general meetings are a valuable forum for the Board to communicate directly with the shareholders. The members of the Board and committee members and the external auditor are present to answer shareholders' questions in the meetings. Meeting circulars are distributed to all shareholders before the annual general meeting and special general meetings in accordance with the timeline requirement as laid down in the Listing Rules and the bye-laws of the Company. All the resolutions proposed to be approved at the general meetings will be taken by poll. The chairman of the meeting and/or the company secretary of the Company will explain the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll. An announcement of the results of the poll will be published in the Stock Exchange's and Company's websites.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has made prompt releases of information about the business and other affairs of the Group to the public and announced its annual and interim results in a timely manner within the time limits as laid down in the Listing Rules.

Shareholders and other stakeholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company at its principal place of business in Hong Kong at 2502B, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong, or by fax to (852) 2890 4459, or by email to cs@sfr59.com.

The 2012 annual general meeting will be held at Empire Room 1, 1st Floor, Empire Hotel Hong Kong • Wanchai, 33 Hennessy Road, Wanchai, Hong Kong on Wednesday, 16 May 2012 at 3:00 p.m..

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

The Board has overall responsibilities for maintaining sound and effective internal control systems of the Group whilst the internal audit department is responsible primarily to ensure the systems are functioning. The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and compliance with relevant laws and regulations. Overall, the systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage failure in material aspects in the Group's operational systems and in the achievement of the Group's business objectives.

The Chief Internal Auditor reported to the Board through the Audit Committee with findings on regular internal audits and recommendations on the effectiveness of the controls during the year 2011. Interim and annual internal audit reports issued by the internal audit department have also been discussed and reviewed by the Audit Committee. While there have been no material issues noted, audit improvements were identified and remedial actions being taken by the management. The independent audits on the internal control systems covered key financial and operational areas, compliance controls and risk management.

DIRECTORS' REPORT

The directors of the Company (the "**Directors**") herein present their annual report together with the audited consolidated financial statements for the year ended 31 December 2011.

CHANGE OF PRESENTATION CURRENCY

During the year ended 31 December 2011, the Group has changed its presentation currency for the preparation of its consolidated financial statements from Hong Kong dollar to Renminbi. The Board considers that the change will result in a more appropriate presentation of the Group's transactions and financial status in its financial statements. The comparative figures in these consolidated financial statements are re-presented in RMB following the accounting policy set out in note 4(o) to the financial statements.

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries during the year are property development, property investment, and provision of property development project management and interior decoration services.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 29.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2011.

SHARE CAPITAL

There was no movements in the share capital of the Company during the year ended 31 December 2011.

Details of the Company's share capital during the year are set out in note 39 to the financial statements.

SHARE OPTIONS

The share option scheme was adopted on 4 August 2005 (the "**2005 Scheme**").

On 22 August 2006, the Company granted 63,850,000 options to subscribe for the Company's shares under the 2005 Scheme. During the year ended 31 December 2011, the Company has further granted 26,000,000 options to senior management to subscribe for the Company's shares of which 5,000,000 was granted to a director of the Company. In total, there were 71,900,000 share options outstanding as at 31 December 2011. Details of the share options scheme are set out in note 41 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 40 to the financial statements.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2011, the Company's reserves (aggregate with the Company's contributed surplus) available for cash distribution and/or distribution in specie as computed in accordance with generally accepted accounting principles of Hong Kong were approximately RMB48 million. The Company's share premium account in the amount of approximately RMB1,216 million may be distributed in the form of fully paid bonus shares.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 18 to the financial statements.

PRINCIPAL PROPERTIES

Details of the investment properties, properties held for/under development and for sale are set out in notes 19, 20, 26 and 27 to the financial statements. Particulars of major properties are set out on page 110.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 22.7% and 41.7%, respectively, of the Group's total sales for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 51.7% and 76.8%, respectively, of the Group's total purchases for the year.

To the knowledge of the Directors, none of the Directors, their associates, or any shareholders who own more than 5% of the Company's share capital, had any interest in the share capital of any other of the five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

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

DIRECTORS' REPORT

DIRECTORS

The Directors during the year and up to the date of this report are as follows:

Executive Directors
Mr. YU Pan *(Chairman and Chief Executive Officer)*
Mr. SIU Shawn *(Deputy Chief Executive Officer, appointed on 1 September 2011)*
Mr. WONG Lok
Mr. LAU Yat Tung, Derrick *(Former Deputy Chairman, office terminated on 9 January 2012 due to his ill health)*

Independent Non-executive Directors
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

Mr. SIU Shawn, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong will retire from office at the forthcoming annual general meeting and being eligible, will offer themselves for re-election in accordance with clause 86(2) or 87(1) of the Company's bye-laws and the Code on Corporate Governance Practices.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as those disclosed in the section of "Connected Transactions" of the report hereinafter, no contracts of significance to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in the Appendix 10 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), to be notified to the Company and the Stock Exchange, are as follows:

(a) Interests in the Shares

Name of Director	Company/ Associated corporation	Capacity	Number of Shares (long position)	Approximate shareholding percentage
Mr. YU Pan	Company	Interest of controlled corporation and/or beneficial owner	1,058,112,271 *(note 1)*	71.61% *(note 2)*
Mr. SIU Shawn	Company	Beneficial owner	4,538,000	0.31% *(note 2)*

Notes:

1. These Shares comprised (i) 94,336,000 existing Shares; and (ii) 963,776,271 existing Shares held directly by Grand Cosmos Holdings Limited ("**Grand Cosmos**"). The entire issued share capital of Grand Cosmos was held by Sharp Bright International Limited ("**Sharp Bright**"), the entire issued share capital of which was held by Mr. YU Pan. The 963,776,271 Shares were charged in favour of Lang Xing Investments Limited ("**Lang Xing**"), the holder of HK$200,000,000 20% secured and guaranteed bonds issued by the Company, by way of a share charge dated 20 September 2011.

2. For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 1,477,687,450 Shares in issue as at 31 December 2011.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

(b) Interests in underlying Shares arising from share options

As at 31 December 2011, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the 2005 Scheme:

Name of Director	Exercise price *(HK$)*	Exercise period	Number of underlying Shares	Approximate shareholding percentage *(note)*
Mr. SIU Shawn	0.70	11 August 2012 to 10 August 2021	5,000,000	0.34%
Mr. CHOY Shu Kwan	1.31	13 March 2007 to 31 July 2015	600,000	0.04%
Mr. CHENG Wing Keung, Raymond	1.31	13 March 2007 to 31 July 2015	600,000	0.04%
Ms. CHUNG Lai Fong	1.31	13 March 2007 to 31 July 2015	600,000	0.04%
Mr. LAU Yat Tung, Derrick (office terminated on 9 January 2012)	1.31	13 March 2007 to 31 July 2015	3,000,000	0.20%

Note: For the purpose of this section, the percentage of shareholding in the Company was calculated on the basis of 1,477,687,450 Shares in issue as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the option holding disclosed above, at no time during the year, was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2011, Mr. YU Pan, the Chairman of the Company, is also a director and substantial shareholder of a company listed on the Shenzhen Stock Exchange, namely 綠景控股股份有限公司 (Lvjing Holding Co., Ltd.) (formerly known as 綠景地產股份有限公司 (Lvjing Real Estate Co., Ltd.)) ("**LJR**") engaged in the residential real estate development business in the mass market in the PRC. Save as the aforesaid, none of the Directors and his/her respective associates had any interests in any business, which competes or is likely to compete, either directly or indirectly, with the Company's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company).

Pursuant to a deed of non-competition dated 6 July 2006, Mr. YU has undertaken to the Company that for so long as he remains as a Director or a controlling shareholder of the Company, all enquiries and actual or potential business opportunities received by him (and/or his associates) in relation to property development project management and property investment in the PRC (the "**Business Opportunities**") shall be referred by Mr. YU to the Company on a timely basis and the Business Opportunities must be first offered or made available to the Group.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

At 31 December 2011, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Interests in the Shares or underlying Shares

Name of Shareholder	Capacity	Number of Shares and underlying Shares		Approximate percentage *(note 2)*
Sharp Bright	Interest of controlled corporation	963,776,271 *(note 1)*	(long)	65.22%
Grand Cosmos	Beneficial owner	963,776,271 *(note 1)*	(long)	65.22%
Lang Xing	Interest of controlled corporation and person having a security interest in shares	977,690,271 *(note 2)*	(long)	66.16%
CCB International Asset Management Limited	Interest of controlled corporation	977,690,271 *(note 2)*	(long)	66.16%
CCB International Asset Management (Cayman) Limited	Interest of controlled corporation	977,690,271 *(note 2)*	(long)	66.16%
CCB International (Holdings) Limited	Interest of controlled corporation and person having a security interest in shares	977,690,271 *(note 2)*	(long)	66.16%
CCB Financial Holdings Limited	Interest of controlled corporation	977,690,271 *(note 2)*	(long)	66.16%
CCB International Group Holdings Limited	Interest of controlled corporation	977,690,271 *(note 2)*	(long)	66.16%
China Construction Bank Corporation	Interest of controlled corporation	977,690,271 *(note 2)*	(long)	66.16%
Central Huijin Investment Ltd.	Interest of controlled corporation	977,690,271 *(note 2)*	(long)	66.16%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

Interests in the Shares or underlying Shares (Continued)

Notes:

1. 963,776,271 existing Shares were held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. YU Pan, Mr. YU Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. The 963,776,271 Shares were charged in favour of Lang Xing by way of a share charge dated 20 September 2011.

2. These Shares comprised (i) 963,776,271 Shares charged in favour of Lang Xing by Grand Cosmos, and (ii) 13,914,000 underlying Shares which would be issued upon exercise of the subscription rights attaching to the warrants issued by the Company to Lang Xing at subscription price of HK$0.7187.

3. For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 1,477,687,450 Shares in issue as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, the Company had not been notified by any persons or corporations who had long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

CONNECTED TRANSACTIONS

Save as the transactions stated in note 48 to the consolidated financial statements, none of the Directors, substantial shareholders or controlling shareholders of the Company and their respective associates was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at 31 December 2011 which was significant in relation to the business of either the Group or has any material personal interest.

In the opinion of the Directors who do not have any interest in those transactions as referred to in note 48, the transactions were carried out on normal commercial terms and in the ordinary and usual course of business of the Group.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

During the year, the Company has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from all Directors to confirm compliance with the Model Code throughout the year ended 31 December 2011.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-executive Director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

DIRECTORS' REPORT

RETIREMENT BENEFITS SCHEMES

Particulars of the retirement benefits schemes of the Group are set out in note 43 to the financial statements.

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.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 109.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the events after the end of the reporting period are set out in note 51 to the financial statements.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. BDO Limited as auditor of the Company.

On behalf of the Board

YU Pan
Chairman

Hong Kong, 23 March 2012

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 29 to 108, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 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 2011, and of the Group's 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.

BDO Limited
Certified Public Accountants
LI Yin Fan
Practising Certificate Number P03113

Hong Kong, 23 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000 (Restated) (Note 4(a))
Revenue	7	**32,951**	366,493
Cost of sales and services		**(17,157)**	(306,817)
Gross profit		**15,794**	59,676
Other income and gains, net		**17,343**	31,316
Sales and marketing expenses		**(10,994)**	(9,118)
Administrative and other expenses		**(112,908)**	(55,748)
Fair value changes in investment properties	19	**15,000**	113,000
Fair value changes in financial derivative liabilities		**(1,510)**	–
Gain on debt extinguishment	8	**–**	934,206
Share of loss of associate, net of tax		**–**	(7,463)
Finance costs	9	**(8,746)**	(142,666)
Finance income	9	**16,592**	3,746
(Loss) profit before income tax	10	**(69,429)**	926,949
Income tax credit (expense)	14	**7,600**	(45,798)
(LOSS) PROFIT FOR THE YEAR		**(61,829)**	881,151
Other comprehensive income:			
Exchange differences arising on foreign operations		**(26)**	(173)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(61,855)**	880,978
(Loss) profit for the year attributable to:			
– Owners of the Company	15	**(51,861)**	871,435
– Non-controlling interests		**(9,968)**	9,716
		(61,829)	881,151
Total comprehensive income for the year attributable to:			
– Owners of the Company		**(51,887)**	871,262
– Non-controlling interests		**(9,968)**	9,716
		(61,855)	880,978
(Loss) earnings per share	16		
– Basic		**(RMB0.035)**	RMB0.590
– Diluted		**(RMB0.035)**	RMB0.590

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	As at 31 December 2011 RMB'000	2010 RMB'000 (Restated) (Note 4(a))	As at 1 January 2010 RMB'000 (Restated) (Note 4(a))
Non-current assets				
Property, plant and equipment	18	**6,531**	2,399	978
Investment properties	19	**495,000**	480,000	367,000
Properties held for development	20	**765,059**	1,921,152	1,381,314
Goodwill	21	**13,554**	13,554	13,554
Interest in an associate	24	**–**	–	555,798
Consideration receivable – non-current portion	25	**81,290**	71,569	–
		1,361,434	2,488,674	2,318,644
Current assets				
Properties under development	20	**1,917,289**	306,145	287,259
Properties held for sale	26	**106,717**	112,460	–
Consideration receivable – current portion	25	**111,809**	552,223	1,067,709
Loan to non-controlling shareholder of a subsidiary	28	**5,100**	–	–
Trade and other receivables	29	**158,488**	16,307	28,128
Restricted and pledged deposits	30	**556,213**	532,404	33,929
Cash and cash equivalents	31	**200,211**	24,347	100,976
		3,055,827	1,543,886	1,518,001
Current liabilities				
Trade and other payables	32	**602,710**	218,344	367,986
Bank and other borrowings – current portion	34	**567,480**	679,801	244,367
Financial derivative liabilities	34	**4,355**	–	–
Convertible notes	35	**–**	–	1,810,858
Loans from non-controlling shareholders of a subsidiary – current portion	36	**168,420**	40,549	–
Income tax payable		**83,087**	110,616	105,670
		1,426,052	1,049,310	2,528,881
Net current assets (liabilities)		**1,629,775**	494,576	(1,010,880)
Total assets less current liabilities		**2,991,209**	2,983,250	1,307,764

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	As at 31 December 2011 RMB'000	2010 RMB'000 (Restated) (Note 4(a))	As at 1 January 2010 RMB'000 (Restated) (Note 4(a))
Non-current liabilities				
Bank and other borrowings				
– non-current portion	*34*	**218,080**	73,500	210,500
Loan from non-controlling shareholder				
of a subsidiary – non-current portion	*36*	**–**	146,341	206,574
Deferred income	*37*	**977,431**	950,125	–
Deferred tax liabilities	*38*	**170,548**	166,798	138,548
		1,366,059	1,336,764	555,622
Net assets		**1,625,150**	1,646,486	752,142
Capital and reserves				
Share capital	*39*	**15,040**	15,040	15,040
Reserves	*40*	**1,549,672**	1,600,040	721,427
Equity attributable to owners of the Company		**1,564,712**	1,615,080	736,467
Non-controlling interests		**60,438**	31,406	15,675
Total equity		**1,625,150**	1,646,486	752,142

On behalf of the Board

YU Pan
Director

SIU Shawn
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	As at 31 December 2011 RMB'000	As at 31 December 2010 RMB'000 (Restated) (Note 4(a))	As at 1 January 2010 RMB'000 (Restated) (Note 4(a))
Non-current assets				
Interests in subsidiaries	22	**2,488,534**	2,041,507	2,607,522
Current assets				
Amounts due from subsidiaries	22	**110,023**	147,173	14,023
Prepayments and other receivables		**322**	355	612
Restricted and pledged deposits	30	**–**	–	14,862
Cash and cash equivalents	31	**1,986**	246	45
		112,331	147,774	29,542
Current liabilities				
Accruals and other payables		**3,316**	4,135	14,337
Amounts due to subsidiaries	22	**1,068,011**	726,170	–
Financial guarantee contract	33	**–**	35,372	45,999
Other borrowings	34	**80,000**	40,000	–
Financial derivative liabilities	34	**4,355**	–	–
Convertible notes	35	**–**	–	1,810,858
		1,155,682	805,677	1,871,194
Net current liabilities		**(1,043,351)**	(657,903)	(1,841,652)
Total assets less current liabilities		**1,445,183**	1,383,604	765,870
Non-current liabilities				
Other borrowings	34	**151,580**	–	–
Net assets		**1,293,603**	1,383,604	765,870
Capital and reserves				
Share capital	39	**15,040**	15,040	15,040
Reserves	40	**1,278,563**	1,368,564	750,830
Total equity		**1,293,603**	1,383,604	765,870

On behalf of the Board

YU Pan
Director

SIU Shawn
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

		Attributable to owners of the Company												
	Note	Share capital RMB'000	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Property revaluation reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Foreign exchange reserve RMB'000	Capital reserve RMB'000	(Accumulated losses) retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2010, as restated	4(a)	15,040	1,216,194	16,116	13,294	34,499	(293,095)	6,471	(196)	–	(271,856)	736,467	15,675	752,142
Profit for the year		–	–	–	–	–	–	–	–	–	871,435	871,435	9,716	881,151
Other comprehensive income		–	–	–	–	–	–	–	(173)	–	–	(173)	–	(173)
Total comprehensive income for the year		–	–	–	–	–	–	–	(173)	–	871,435	871,262	9,716	880,978
Contribution from non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	7,351	–	7,351	6,015	13,366
Reallocation of lapsed options from share-based payment reserve to retained profits		–	–	–	(43)	–	–	–	–	–	43	–	–	–
At 31 December 2010 and 1 January 2011, as restated	4(a)	**15,040**	**1,216,194**	**16,116**	**13,251**	**34,499**	**(293,095)**	**6,471**	**(369)**	**7,351**	**599,622**	**1,615,080**	**31,406**	**1,646,486**
Loss for the year		–	–	–	–	–	–	–	–	–	(51,861)	(51,861)	(9,968)	(61,829)
Other comprehensive income		–	–	–	–	–	–	–	(26)	–	–	(26)	–	(26)
Total comprehensive income for the year		–	–	–	–	–	–	–	(26)	–	(51,861)	(51,887)	(9,968)	(61,855)
Contribution from non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	39,000	39,000
Recognition of equity-settled share-based payment expenses		–	–	–	1,519	–	–	–	–	–	–	1,519	–	1,519
At 31 December 2011		**15,040**	**1,216,194**	**16,116**	**14,770**	**34,499**	**(293,095)**	**6,471**	**(395)**	**7,351**	**547,761**	**1,564,712**	**60,438**	**1,625,150**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000 (Restated) (Note 4(a))
Net cash from operating activities	42	**101,184**	193,706
Investing activities			
Interest received		**7,955**	3,747
Consideration received for disposal of a subsidiary in prior year		**43,970**	1,023,739
Capital contributions to an associate		–	(109,220)
Purchase of property, plant and equipment		**(5,203)**	(1,884)
Proceeds from disposal of property, plant and equipment		**330**	63
Increase in restricted and pledged deposits		**(23,809)**	(513,355)
Net cash from investing activities		**23,243**	403,090
Financing activities			
New bank and other borrowings		**283,512**	526,003
Repayment of bank and other borrowings		**(234,924)**	(173,392)
Settlement of convertible notes		–	(1,018,992)
Short-term loan advance from a director		–	1,734
Repayment of short-term loan from a director		–	(1,734)
Repayment of loans from non-controlling shareholders of a subsidiary		**(27,380)**	(6,318)
Loan advance to non-controlling shareholder of a subsidiary		**(5,100)**	–
Capital contributions from non-controlling shareholder of a subsidiary		**39,000**	–
Net cash from (used in) financing activities		**55,108**	(672,699)
Net increase (decrease) in cash and cash equivalents		**179,535**	(75,903)
Effect of foreign exchange rate changes		**(3,671)**	(726)
Cash and cash equivalents at beginning of year		**24,347**	100,976
Cash and cash equivalents at end of year	31	**200,211**	24,347

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL

Skyfame Realty (Holdings) Limited (the "**Company**") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its (a) registered office, (b) head office and principal place of business in the People's Republic of China ("**PRC**"), and (c) principal place of business in Hong Kong are at (a) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; (b) 32nd to 33rd floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, PRC; and (c) 2502B, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong, respectively.

The Company's parent is Grand Cosmos Holdings Limited ("**Grand Cosmos**") and the directors of the Company (the "**Directors**") consider its ultimate holding company is Sharp Bright International Limited ("**Sharp Bright**"). Grand Cosmos and Sharp Bright are both incorporated in the British Virgin Islands (the "**BVI**").

The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**". The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries are property development, property investment, hotel operation and the provision of related ancillary services.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2011

HKFRSs (Amendments)	Improvements to HKFRSs 2010
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures

Except as explained below, the adoption of these new/revised standards and interpretations has no material impact on the Group's financial statements.

HKFRS 7 (Amendments) – Financial Instruments: Disclosures

As part of the Improvements to HKFRSs issued in 2010, HKFRS 7 has been amended to enhance the interaction between quantitative and qualitative disclosures. If the carrying amount of a financial asset best represents the maximum exposure to credit risk, the standard does not require a positive statement to this effect in the financial statements. This amended disclosure requirement has been applied retrospectively. The carrying amount of the Group's trade receivables represents the Group's maximum exposure to credit risk in respect of these financial assets as at 31 December 2011 and 2010. The prior year financial statements included a positive statement to this effect which is removed in the 2011 financial statements following the amendments. The adoption of the amendments has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2011 (Continued)

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition. The revised definitions have no impact on related party disclosures in the current and prior periods. The adoption of HKAS 24 (Revised) also has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

Other than these, adoption of the other new or revised HKFRSs has had no material effects on the Group's consolidated financial statements nor resulted in substantial changes to the Group's accounting policies.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[5]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]

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

[2] *Effective for annual periods beginning on or after 1 January 2013*

[3] *Effective for annual periods beginning on or after 1 January 2012*

[4] *Effective for annual periods beginning on or after 1 January 2014*

[5] *Effective for annual periods beginning on or after 1 July 2012*

[6] *Effective for annual periods beginning on or after 1 January 2015*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Amendments to HKFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments improve the disclosure requirements that are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position.

Amendments to HKAS 12 – Deferred Tax – Recovery of Underlying Assets

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments will be applied retrospectively.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify: (1) the meaning of "currently has a legally enforceable right of set-off" and; (2) that some gross settlement systems may be considered equivalent to net settlement.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 – Financial Instruments (Continued)

Amendments to HKFRS 9 Financial Instruments defer its mandatory effective date from 1 January 2013 to 1 January 2015. The deferral will make it possible for all phases of the project to have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying HKFRS 9. This relief was originally only available to companies that chose to apply HKFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of HKFRS 9 has on the classification and measurement of financial instruments. Early application of HKFRS 9 is still permitted.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 11 – Joint Arrangements

Joint arrangements under HKFRS 11 have the same basic characteristics as joint ventures under HKAS 31. Joint arrangements are classified as either joint operations or joint ventures. Where the Group has rights to the assets and obligations for the liabilities of the joint arrangement, it is regarded as a joint operator and will recognise its interests in the assets, liabilities, income and expenses arising from the joint arrangement. Where the Group has rights to the net assets of the joint arrangement as a whole, it is regarded as having an interest in a joint venture and will apply the equity method of accounting. HKFRS 11 does not allow proportionate consolidation. In an arrangement structured through a separate vehicle, all relevant facts and circumstances should be considered to determine whether the parties to the arrangement have rights to the net assets of the arrangement. Previously, the existence of a separate legal entity was the key factor in determining the existence of a jointly controlled entity under HKAS 31. HKFRS 11 will be applied retrospectively with specific restatement requirements for a joint venture which changes from proportionate consolidation to the equity method and a joint operation which changes from equity method to accounting for assets and liabilities.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the Directors are not yet in a position to quantify the effects on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except that the investment properties and financial derivative liabilities are stated at their fair values as explained in the accounting policies set out in note 4.

(c) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

(d) Functional and presentation currency

The functional currency of the Company and its principal subsidiaries is Renminbi ("**RMB**").

The consolidated financial statements are presented in RMB as management of the Company controls and monitors the performance and financial position of the Group by using RMB.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Change in basis of preparation

During the year ended 31 December 2011, the Group changed its presentation currency for the preparation of its financial statements from Hong Kong dollar ("**HK$**") to RMB. The Board considers the change will result in a more appropriate presentation of the Group's transactions and financial status in the financial statements. The comparative figures in the consolidated financial statements are re-presented in RMB following the policy in note 4(o).

(b) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Business combination and basis of consolidation (Continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Business combination and basis of consolidation (Continued)

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

(c) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, 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.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(d) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying values are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing its carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Jointly controlled entities

A jointly controlled entity is a joint venture under contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Interest in jointly controlled entity is included in the consolidated financial statements using proportionate consolidation. The Group's share of the jointly controlled entity's assets, liabilities, income and expenses are combined line-by-line with similar items of the Group. Any premium paid for an interest in jointly controlled entity above the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities is dealt with under the goodwill policy as set out in note 4(f).

Profits and losses arising on transactions between the Group and jointly controlled entity are recognised only to the extent of unrelated investors' interests in the entity. The investor's share in the jointly controlled entity's profits and losses resulting from these transactions is eliminated against the asset or liability of the jointly controlled entity arising on the transaction.

(f) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair values of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid ("discount on business combination"), after reassessment, the excess is recognised in profit or loss on the acquisition date.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("**CGUs**") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss and is not reversed in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Furniture, fixtures and equipment	2 to 5 years
Motor vehicles	4 to 5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(h) Investment properties

Investment properties are properties held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(i) Properties held for/under development

Properties held for/under development are initially recognised at cost, and subsequently at the lower of cost and net realisable value. The cost of properties comprises land costs, development expenditure, professional fees and borrowing costs capitalised. Land costs include prepaid lease payments representing up-front payments to acquire long-term interests in lessee-occupied properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost represents the carrying amount of properties held for/under development upon the completion of the construction of properties. Net realisable value represents the estimated selling price of properties sold in the ordinary course of business less estimated costs to be incurred in selling the properties.

(k) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(l) Financial instruments

(i) Financial assets

The Group classifies its financial assets into the category of loans and receivables. The Group's accounting policy for this category is as follows:

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary assets. Loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;
– a breach of contract, such as a default or delinquency in interest or principal payments;
– granting concession to a debtor because of debtors' financial difficulty; and
– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Financial liabilities

The Group classifies its financial liabilities depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, loans and borrowings and the liability component of convertible notes issued by the Group, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

(iv) Convertible debts

Convertible notes issued by the Group that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the conversion option derivative is recognised at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method, until extinguished on conversion or maturity. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the convertible notes are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the convertible notes are redeemed, and difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs related to the conversion option derivative is recognised in profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

(vii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

(viii) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the financial asset expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled or expires.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided as follows:

(i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed, the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included as trade and other payables under current liabilities in the statement of financial position.

(ii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associate and jointly controlled entity, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(o) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Foreign currency (Continued)

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of the group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of profit or loss on disposal.

(p) Employee benefits

(i) Defined contribution pension plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(ii) Termination benefits

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

(q) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Share-based payments (Continued)

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in the share-based payment reserve within equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received.

(r) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment and investments in subsidiaries and associate to determine whether there is any indication that these assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of a non-financial asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Leasing (Continued)

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expenses, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(u) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;
(ii) has significant influence over the Group; or
(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;
(ii) children of that person's spouse or domestic partner; and
(iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key sources of estimation uncertainty are as follows:

Consideration receivable

In assessing the final instalment amount to be received from the disposal of 廣州寰城實業發展有限公司 (Guangzhou Huan Cheng Real Estate Development Company Limited) ("**Huan Cheng**"), a former subsidiary engaged in the development of Tianhe Project, that is subject to adjustments pursuant to the agreement entered into with 海航酒店控股集團有限公司 (HNA Hotel Holdings Group Co. Limited) ("**HNA Hotel**") in relation to the disposal of shares of Huan Cheng, management has to take into assumptions that there is no overrun in construction costs and delay in construction and the estimate of the construction cost of the project and finance costs to be incurred. Such estimates are based on management's past experience in project management, its judgement on stable market conditions in the supply of labour and materials, the progress of construction and a prospective view on the financial markets for construction loans In events of any material change in the estimates in subsequent periods, the carrying amount of the consideration receivable may be significantly affected.

In assessing the recoverability of the balance of the second installment due from HNA Hotel, the management has assessed the financial position of HNA and its ability to execute the provisions set out in the supplemental agreement dated 1 July 2011 in relation to the transfer of the ownership of the properties at the HNA Tower to the Group for office use by the Group.

Impairment of non-financial assets other than goodwill

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-financial assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus residual value of the asset on disposal. Where the recoverable amount of non-financial assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecast of future performance and long-term growth rates and the selection of discount rates. If these forecast and assumptions prove to be inaccurate or circumstances change, further write-down or reversal of the write-down of the carrying value of the non-financial assets may be required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS (Continued)

Income taxes and deferred taxes

The Group is subject to taxation in the PRC and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax 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 have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

Land appreciation taxes

PRC land appreciation tax ("**LAT**") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including land use rights, borrowing costs and all property development expenditures.

Those subsidiaries of the Company which are engaged in property development business in the PRC are subject to land appreciation taxes, which have been included in income tax expense in profit or loss. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with the relevant tax authorities in respect of certain property development projects. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and provision for land appreciation taxes in the period in which such determination is made.

Provision for write-down in value of properties held for/under development and properties held for sale

Management of the Group reviews the development budget and the estimation of net realisable value of the properties at the end of each reporting period, and makes provision for write-down in value, if any. These estimates are based on management's monitoring of the development progress, the current market conditions which may affect the cost to complete and/or the selling price, and the historical experience of selling the properties of similar nature. It could change as a result of changes in market conditions or internal factors of the Group. Such changes will have impact on the carrying amounts of the properties and the provision for write-down in value in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

Critical judgments in applying accounting policies are as follows:

Deferred income

During the year and at the end of the reporting period, management makes judgment on whether the revenue recognition criteria set out in paragraph 14 of HKAS 18 "Revenue" in respect of the sale of the underlying assets and liabilities of the Tianhe Project have been fully satisfied, making reference to the terms of the agreement governing the sale transaction and the current circumstances of the due performance of certain obligations of the Group. Without fully satisfying the revenue recognition criteria, the related revenue and costs of the project are deferred and carried in the consolidated statement of financial position. More details have been set out in note 37.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the Group is currently organised into three operating divisions – property development, property investment and hotel operation and related ancillary services ("**hotel operation**"). As management of the Group considers that all consolidated revenue are attributable to the markets in the PRC and consolidated non-current assets are substantially located in the PRC, no geographical information is presented. The Group's reportable segments are as follows:

Property development	–	Property development and sale of properties
Property investment	–	Property leasing
Hotel operation	–	Hotel operation and provision of related ancillary services

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments, the expenses directly incurred by those segments and the depreciation charges of assets attributable to those segments. Corporate income and expenses, finance costs and income, results of associate and any non-operating items which cannot be directly associated with the reportable segments are not allocated to the respective segments.

The measure used for reporting segment results is operating (loss) earning before interest (finance costs and income), income tax, depreciation and amortisation ("**adjusted EBITDA**"). In addition to information concerning adjusted EBITDA, management also provides other segment information concerning depreciation and fair value changes in investment properties.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of cash and bank balances, unallocated bank and other borrowings, financial derivative liabilities, convertible notes and taxes. Investment properties and interest in an associate are included in segment assets but the related fair value changes in investment properties and share of loss of associate, net of tax are excluded from segment results because the Group's senior executive management considers that they are not generated from operating activities.

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance in the consolidated financial statements is set out below:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities

	Property development RMB'000	Property investment RMB'000	Hotel operation RMB'000	Total RMB'000
Year ended 31 December 2011				
Reportable segment revenue – external, and consolidated revenue	**15,588**	**17,363**	**–**	**32,951**
Operating results	**(96,010)**	**5,417**	**–**	**(90,593)**
Add: Depreciation	**219**	**467**	**–**	**686**
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)	**(95,791)**	**5,884**	**–**	**(89,907)**
Fair value changes in investment properties	**–**	**15,000**	**–**	**15,000**
Impairment loss on trade and other receivables	**–**	**(215)**	**–**	**(215)**
Bad debts recovered	**–**	**54**	**–**	**54**
Additions to properties held for/under development	**414,842**	**–**	**–**	**414,842**
Capital expenditure	**498**	**–**	**–**	**498**
As at 31 December 2011				
Assets				
Reportable segment assets	**3,158,481**	**501,494**	**–**	**3,659,975**
Liabilities				
Reportable segment liabilities	**1,731,561**	**12,160**	**–**	**1,743,721**
Year ended 31 December 2010 (Restated) (Note 4(a))				
Reportable segment revenue – external, and consolidated revenue	351,044	15,449	–	366,493
Operating results	13,094	6,967	(1,133)	18,928
Add: Depreciation	209	39	–	248
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)	13,303	7,006	(1,133)	19,176
Fair value changes in investment properties	–	113,000	–	113,000
Bad debts recovered	–	36	–	36
Share of loss of associate, net of tax	(7,463)	–	–	(7,463)
Additions to properties held for/under development	290,586	–	–	290,586
Capital expenditure	112	–	–	112
As at 31 December 2010 (Restated) (Note 4(a))				
Assets				
Reportable segment assets	2,967,638	482,446	24,918	3,475,002
Liabilities				
Reportable segment liabilities	1,292,482	12,235	39,063	1,343,780
As at 1 January 2010 (Restated) (Note 4(a))				
Assets				
Reportable segment assets	2,727,771	367,876	605,071	3,700,718
Liabilities				
Reportable segment liabilities	640,724	16,470	36,023	693,217

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment results, assets and liabilities

	2011	2010
	RMB'000	*RMB'000*
		(Restated)
		(Note 4(a))
Results		
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)	**(89,907)**	19,176
Unallocated corporate (expenses) income before depreciation	**(162)**	7,361
	(90,069)	26,537
Depreciation and amortisation		
– Reportable segment	**(686)**	(248)
– Unallocated	**(10)**	(163)
	(90,765)	26,126
Fair value changes in investment properties	**15,000**	113,000
Fair value changes in financial derivative liabilities	**(1,510)**	–
Gain on debt extinguishment	–	934,206
Share of loss of associate, net of tax	–	(7,463)
Finance costs	**(8,746)**	(142,666)
Finance income	**16,592**	3,746
Consolidated (loss) profit before income tax	**(69,429)**	926,949
Capital expenditure incurred during the year		
– Reportable segment	**498**	112
– Unallocated	**4,705**	1,772
	5,203	1,884

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment results, assets and liabilities (Continued)

	As at 31 December		As at 1 January
	2011	2010	2010
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	(Restated)
		(Note 4(a))	*(Note 4(a))*
Assets			
Reportable segment assets	**3,659,975**	3,475,002	3,700,718
Restricted and pledged deposits	**556,213**	532,404	33,929
Cash and cash equivalents	**200,211**	24,347	100,976
Unallocated corporate assets	**862**	807	1,022
Consolidated total assets	**4,417,261**	4,032,560	3,836,645
Liabilities			
Reportable segment liabilities	**1,743,721**	1,343,780	693,217
Income tax payable	**83,087**	110,616	105,670
Deferred tax liabilities	**170,548**	166,798	138,548
Financial derivative liabilities	**4,355**	–	–
Convertible notes	**–**	–	1,810,858
Unallocated bank and other borrowings	**785,560**	753,301	324,867
Unallocated corporate liabilities	**4,840**	11,579	11,343
Consolidated total liabilities	**2,792,111**	2,386,074	3,084,503

7. REVENUE

Revenue represents the net invoiced amounts received and receivable from property development and property investment. The amounts of each significant category of revenue recognised during the year are as follows:

	2011	2010
	RMB'000	*RMB'000*
		(Restated)
		(Note 4(a))
Sale of properties	**13,702**	350,421
Rental income	**19,249**	16,072
	32,951	366,493

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. GAIN ON DEBT EXTINGUISHMENT

	2010 (Restated) *(Note 4(a))*		
	Other borrowings *RMB'000*	Convertible notes *RMB'000*	Total *RMB'000*
	(Note 34(d))	*(Note 35)*	
Write-down of principal	38,139	260,020	298,159
Reversal of accrued interests	44,009	592,038	636,047
Gain recognised in profit or loss	82,148	852,058	934,206

9. FINANCE COSTS AND INCOME

	2011 **RMB'000**	2010 *RMB'000* (Restated) *(Note 4(a))*
Finance costs:		
Interest on convertible notes wholly repayable within five years		
– amortisation for the year	–	103,393
– interest surcharges	–	3,600
Interest on bank and other borrowings		
– wholly repayable within five years	**40,180**	37,506
– wholly repayable after five years	**4,514**	4,393
– interest surcharges	–	534
Interest on short-term loan from a director	–	25
Imputed interest on loan from non-controlling shareholder of a subsidiary	**8,911**	–
	53,605	149,451
Less: Amount capitalised as properties under development		
Interest on bank and other borrowings	**(37,846)**	(7,118)
Imputed interest on loan from non-controlling shareholder of a subsidiary	**(8,911)**	–
	(46,757)	(7,118)
	6,848	142,333
Other borrowing costs	**1,898**	333
Finance costs charged to profit or loss	**8,746**	142,666
Finance income:		
Bank interest income	**11,941**	3,746
Other interest income	**4,651**	–
	16,592	3,746

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. (LOSS) PROFIT BEFORE INCOME TAX

(Loss) profit before income tax for the year has been arrived at after charging (crediting):

	Note	2011 RMB'000	2010 RMB'000 (Restated) (Note 4(a))
Cost of properties sold		**12,347**	284,270
Staff costs, including directors' emoluments	*11*	**34,106**	16,723
Auditor's remuneration			
– current year		**854**	711
– over-provision for prior year		**–**	(32)
– non-audit services		**227**	999
Depreciation of property, plant and equipment		**751**	462
Less: Amount capitalised as properties under development		**(55)**	(51)
Total depreciation charged to profit or loss		**696**	411
Gain on disposal of property, plant and equipment		**(10)**	–
Minimum lease payments under operating lease in respect of:			
– rented office premises		**4,510**	7,645
– rented other premises		**304**	192
Exchange gain, net		**(16,682)**	(30,518)
Impairment loss on trade and other receivables		**215**	–
Bad debts recovered		**(54)**	(36)
Direct operating expenses incurred for rental income		**4,604**	2,877

11. STAFF COSTS

	2011 RMB'000	2010 RMB'000 (Restated) (Note 4(a))
Staff costs (including directors' emoluments) comprise:		
Basic salaries and other benefits	**33,698**	20,126
Bonuses	**3,979**	5,114
Equity-settled share-based payment expenses	**1,519**	–
Contributions to defined contribution pension plans	**1,787**	1,378
Compensation for loss of office	**3,315**	–
	44,298	26,618
Less: Amount capitalised as properties under development	**(10,192)**	(9,895)
Staff costs charged to profit or loss	**34,106**	16,723

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Fees	Salaries and other benefits	Bonuses	Compensation for loss of office	Equity-settled share-based payment expenses	Contributions to defined contribution pension plan	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note (a))	*(note (b))*				
2011							
Executive directors							
YU Pan	–	1,710	335	–	–	10	2,055
SIU Shawn *(appointed on 1 September 2011)*	–	644	124	–	292	4	1,064
LAU Yat Tung, Derrick *(office terminated on 9 January 2012)*	–	701	–	3,315	–	10	4,026
WONG Lok	–	218	–	–	–	10	228
Independent non-executive directors							
CHOY Shu Kwan	166	–	–	–	–	–	166
CHENG Wing Keung, Raymond	166	–	–	–	–	–	166
CHUNG Lai Fong	166	–	–	–	–	–	166
	498	3,273	459	3,315	292	34	7,871
2010 (Restated) ***(Note 4(a))***							
Executive directors							
YU Pan	–	1,657	585	–	–	10	2,252
LAU Yat Tung, Derrick	–	712	222	–	–	10	944
WONG Lok	–	225	–	–	–	10	235
Independent non-executive directors							
CHOY Shu Kwan	156	–	–	–	–	–	156
CHENG Wing Keung, Raymond	156	–	–	–	–	–	156
CHUNG Lai Fong	156	–	–	–	–	–	156
Jerry WU *(resigned on 1 August 2010)*	91	–	–	–	–	–	91
	559	2,594	807	–	–	30	3,990

Notes:

(a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind; and

(b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the Remuneration Committee of the Company.

There was no arrangement under which a Director has waived or agreed to waive any emoluments during the current and prior years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

13. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group during the year, two (2010: two) are Directors whose emoluments are included in note 12 above. The emoluments of the remaining three (2010: three) individuals are as follows:

	2011	2010
	RMB'000	*RMB'000*
		(Restated)
		(Note 4(a))
Basic salaries and other benefits	**2,822**	2,586
Bonuses	**861**	873
Equity-settled share-based payment expenses	**753**	–
Contributions to defined contribution pension plans	**90**	71
	4,526	3,530

Their emoluments are within the following bands:

	Number of employees	
	2011	2010
RMBNil to RMB829,000 (equivalent to HK$Nil to HK$1,000,000)	–	1
RMB829,001 to RMB1,243,000 (equivalent to HK$1,000,001 to HK$1,500,000)	–	1
RMB1,243,001 to RMB1,657,000 (equivalent to HK$1,500,001 to HK$2,000,000)	**2**	1
RMB1,657,001 to RMB2,072,000 (equivalent to HK$2,000,001 to HK$2,500,000)	**1**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. INCOME TAX CREDIT (EXPENSE)

	2011	2010
	RMB'000	*RMB'000*
		(Restated)
		(Note 4(a))
Current tax		
PRC corporate tax		
– current year	**(4,953)**	(14,044)
– under-provision in respect of prior years	**(1,580)**	–
PRC LAT		
– current year	**(137)**	(3,504)
– over-provision in respect of prior years	**20,995**	–
– under-provision in respect of prior years	**(2,975)**	–
	11,350	(17,548)
Deferred tax *(Note 38)*		
– current year	**(3,750)**	(28,250)
Total income tax credit (expense)	**7,600**	(45,798)

No provision for Hong Kong profits tax has been made for the year ended 31 December 2011 (2010: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2010: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2010: 25%) of the estimated assessable profits.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. INCOME TAX CREDIT (EXPENSE) (Continued)

The income tax credit (expense) for the year can be reconciled to the (loss) profit before income tax per the consolidated statement of comprehensive income as follows:

	2011 *RMB'000*	2010 *RMB'000* (Restated) *(Note 4(a))*
(Loss) profit before income tax	**(69,429)**	926,949
Tax calculated at the applicable income tax rate of 25% (2010: 25%)	**17,357**	(231,738)
Effect of different tax rates of entities operating in other jurisdictions	**(4,462)**	66,486
Tax effect of expenses not deductible for tax purposes	**(14,656)**	(30,920)
Tax effect of revenue not subject to tax	**4,073**	162,843
Tax effect of tax losses not recognised during the year	**(10,921)**	(4,382)
Tax effect of utilisation of tax losses not recognised in prior years	**–**	6,640
Tax effect of LAT	**(137)**	(3,504)
Over-provision in respect of prior years	**20,995**	–
Under-provision in respect of prior years	**(4,555)**	–
Tax effect of other temporary differences not recognised	**(3,909)**	(3,352)
Others	**3,815**	(7,871)
Income tax credit (expense)	**7,600**	(45,798)

15. (LOSS) PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB91,520,000 (2010: profit of RMB617,734,000 (Restated) (Note 4(a))).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. (LOSS) EARNINGS PER SHARE

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

	2011	2010
	RMB'000	*RMB'000*
		(Restated)
		(Note 4(a))
(Loss) profit attributable to ordinary shareholders of the Company for the purposes of basic and diluted (loss) earnings per share	**(51,861)**	871,435

	Number of shares	
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	**1,477,687**	1,477,687

For the years ended 31 December 2011 and 2010, basic (loss) earnings per share are same as diluted (loss) earnings per share as any effect from the Company's options and warrants is anti-dilutive.

17. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2011 (2010: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. PROPERTY, PLANT AND EQUIPMENT

The Group	Note	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost				
At 1 January 2010, as restated	4(a)	1,517	2,053	3,570
Additions		1,332	552	1,884
Transfer from interest in an associate		71	–	71
Disposals		(71)	–	(71)
Exchange differences		(21)	(65)	(86)
At 31 December 2010 and at 1 January 2011, as restated	4(a)	**2,828**	**2,540**	**5,368**
Additions		**999**	**4,204**	**5,203**
Disposals		**–**	**(569)**	**(569)**
Written off		**(181)**	**–**	**(181)**
Exchange differences		**(13)**	**(58)**	**(71)**
At 31 December 2011		**3,633**	**6,117**	**9,750**
Accumulated depreciation				
At 1 January 2010, as restated	4(a)	1,017	1,575	2,592
Depreciation for the year		227	235	462
Disposals		(8)	–	(8)
Exchange differences		(14)	(63)	(77)
At 31 December 2010 and at 1 January 2011, as restated	4(a)	**1,222**	**1,747**	**2,969**
Depreciation for the year		**532**	**219**	**751**
Disposals		**–**	**(249)**	**(249)**
Written off		**(181)**	**–**	**(181)**
Exchange differences		**(14)**	**(57)**	**(71)**
At 31 December 2011		**1,559**	**1,660**	**3,219**
Net book value				
At 31 December 2011		**2,074**	**4,457**	**6,531**
At 31 December 2010, as restated	4(a)	1,606	793	2,399
At 1 January 2010, as restated	4(a)	500	478	978

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

19. INVESTMENT PROPERTIES

The Group	**2011** **RMB'000**	2010 RMB'000 (Restated) (Note 4(a))
At beginning of year	**480,000**	367,000
Changes in fair value	**15,000**	113,000
At end of year	**495,000**	480,000

Details of assessment of the fair value are set out in note 27.

20. PROPERTIES HELD FOR/UNDER DEVELOPMENT

Properties held for/under development in the PRC are as follows:

The Group	Notes	**As at 31 December** **2011** **RMB'000**	2010 RMB'000 (Restated) (Note 4(a))	As at 1 January 2010 RMB'000 (Restated) (Note 4(a))
Land use rights	(a)	**284,457**	124,220	131,217
Premium paid for the acquisition of the interest of the land, demolition and settlement costs		**905,314**	947,966	1,024,536
Construction cost		**539,897**	337,795	387,931
Costs of the Tianhe Project	(b)	**765,059**	690,171	–
Others		**187,621**	127,145	187,362
		2,682,348	2,227,297	1,731,046
Less: Accumulated write-down in value		**–**	–	(62,473)
		2,682,348	2,227,297	1,668,573
Representing:				
Properties held for development – non-current assets		**765,059**	1,921,152	1,381,314
Properties under development – current assets		**1,917,289**	306,145	287,259
		2,682,348	2,227,297	1,668,573

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. PROPERTIES HELD FOR/UNDER DEVELOPMENT (Continued)

Notes:

(a) Land use right comprises cost of acquiring rights to using certain pieces of land, which are all located in the PRC, for property development over fixed periods of time which are to be defined within the range between 40 and 70 years.

(b) The equity interest in Huan Cheng, holding company of the Tianhe Project, was disposed of in September 2010. Nonetheless, the revenue and costs associated with the disposal are not recognised in profit and loss for the current year until the revenue and associated costs can be reliably measured and the contracted obligations of the Group have been performed. Accordingly, the costs of the Tianhe Project are not derecognised, but included in the properties under development. Details of the transaction are set out in note 37.

The following table reconciles the movement of the carrying amount of properties held for/under development during the year:

The Group	*Note*	**2011** *RMB'000*	2010 *RMB'000* (Restated) *(Note 4(a))*
At beginning of year, as restated		**2,227,297**	1,668,573
Additions			
– Capitalisation of depreciation of properties, plant and equipment		**55**	51
– Capitalisation of finance costs		**46,757**	7,118
– Other land and development costs		**339,954**	258,114
		386,766	265,283
Costs of the Tianhe Project			
– Transfer from interest in an associate upon discharge of receivers	*24(a)*	**–**	657,699
– Additions of land premium and relocation costs		**74,888**	–
– Additions of development costs		**–**	32,472
		74,888	690,171
Completed properties transferred to properties held for sale (including accumulated write-down in value)		**(6,603)**	(396,730)
At end of year		**2,682,348**	2,227,297

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. GOODWILL

The Group	*Notes*	**2011** **RMB'000**	2010 *RMB'000* (Restated) *(Note 4(a))*
Cost			
At beginning of year	*4(a)*	**68,351**	72,043
Transfer in relation to the Tianhe Project	*37*	**–**	(3,692)
At end of year		**68,351**	68,351
Accumulated impairment loss			
At beginning of year	*4(a)*	**54,797**	58,489
Transfer in relation to the Tianhe Project	*37*	**–**	(3,692)
At end of year		**54,797**	54,797
Net book value			
At end of year		**13,554**	13,554

Goodwill acquired through business combinations has been allocated to the following CGU, namely property development, for impairment testing:

Project	Attributable CGU	**As at 31 December** **2011** **RMB'000**	2010 *RMB'000* (Restated) *(Note 4(a))*	As at 1 January 2010 *RMB'000* (Restated) *(Note 4(a))*
Zhoutouzui Project	Property development *(Note)*	**13,554**	13,554	13,554

Note: Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition which was completed on 4 June 2007. The carrying amount of property development costs in relation to the Zhoutouzui Project is included in properties held for/under development (as disclosed in note 20).

Impairment test for goodwill

The goodwill relates to the CGU within the operational segment of property development. The recoverable amount of the CGU is determined using value-in-use calculation. This calculation uses cash flow projection based on financial budget of this CGU which is approved by management covering a five-year period with key assumptions including revenue, direct costs and other operating expenses being referenced to past performance and management's reasonable expectations on the business outlook of this CGU.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. GOODWILL (Continued)

Impairment test for goodwill (Continued)

Key assumptions are as follows:

CGU	Discount rate	Operating margin	Growth rate after the fifth year from the start of projection
As at 31 December 2011			
Property development	**8.00%**	**49.60%**	**N/A**
As at 31 December 2010			
Property development	8.00%	31%	5%

Discount rate is based on the Group's management's assessment of specific risks related to the CGU. Operating margin is based on past experience. Growth rate beyond the fifth year from the start of the projection is based on economic data pertaining to the region concerned.

No impairment loss is provided for the year ended 31 December 2011 (2010: Nil). The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates sufficient cashflow projection that justifies the carrying value of the goodwill. Management did not consider impairment of goodwill necessary.

NOTES TO THE FINANCIAL STATEMENTS

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22. INTERESTS IN SUBSIDIARIES

The Company	*Notes*	As at 31 December **2011** ***RMB'000***	As at 31 December 2010 *RMB'000* (Restated) *(Note 4(a))*	As at 1 January 2010 *RMB'000* (Restated) *(Note 4(a))*
Unlisted investments, at cost	*(a)*	**2,488,534**	51,176	51,176
Amounts due from subsidiaries				
– non-current portion	*(b)*	**–**	2,236,815	2,633,581
		2,488,534	2,287,991	2,684,757
Less: Provision for impairment loss		**–**	(246,484)	(77,235)
Interests in subsidiaries				
– non-current portion		**2,488,534**	2,041,507	2,607,522
Amounts due from subsidiaries				
– current portion	*(c)*	**133,335**	160,667	21,107
Less: Provision for impairment loss		**(23,312)**	(13,494)	(7,084)
Amounts due from subsidiaries				
– current portion		**110,023**	147,173	14,023
		2,598,557	2,188,680	2,621,545
Amounts due to subsidiaries	*(c)*	**(1,068,011)**	(726,170)	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

22. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

(a) Details of the Company's principal subsidiaries as at 31 December 2011 are as follows:

Name of subsidiaries	Place of incorporation/ establishment	Particulars of issued ordinary shares/paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
Fine Luck Group Limited	BVI	US$1	100%	–	Investment holding
Fortunate Start Investments Limited	BVI	US$100	–	100%	Investment holding
Graceful China Limited	Hong Kong	HK$1	100%	–	Group treasury and investment holding
廣州市創譽房地產開發有限公司 (Guangzhou Chuangyu Real Estate Development Company Limited) ("**Chuangyu**")	PRC	US$6,000,000	–	100%	Property investment in the PRC
廣州譽浚咨詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited) ("**GZ Yu Jun**")	PRC	HK$5,000,000	–	100%	Investment holding and provision of property development project management services in the PRC
Guangzhou Zhoutouzui Development Limited ("**GZ Zhoutouzui**")	Hong Kong	HK$100	–	100%	Investment holding
貴州譽浚房地產開發有限公司 (Guizhou Yu Jun Real Estate Development Company Limited)	PRC	RMB50,000,000	–	55%	Property development in the PRC
Long World Trading Limited	BVI	US$1	–	100%	Investment holding
Skyfame Management Services Limited	Hong Kong	HK$1	100%	–	Provision of management services to group entities
Yaubond Limited ("**Yaubond**")	BVI	US$18,813,500	–	100%	Property development
永州市天譽房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited)	PRC	RMB30,000,000	–	70%	Property development in the PRC
永州天譽旅遊發展有限公司 (Yongzhou Tianyu Tourism Development Company Limited)	PRC	RMB100,000,000	–	70%	Scenic zone management, property development and hotel operation in the PRC
Winprofit Investments Limited	BVI	US$100	100%	–	Investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

Chuangyu and GZ Yu Jun are wholly foreign-owned enterprises established with limited liability in the PRC.

(b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment but are expected not to be recoverable within twelve months from the end of the reporting period.

(c) The amounts due from (to) subsidiaries are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

23. INTERESTS IN JOINTLY CONTROLLED ENTITY

The Group

The Company holds indirectly 100% interest in a jointly controlled entity, 廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Limited) ("**Yucheng**"), which is accounted for in the consolidated financial statements of the Group by proportionate consolidation as detailed in note 4(e). Yucheng is a sino-foreign co-operative joint venture company established in the PRC for a renewal term of 15 years commencing on 5 March 2003. Details of the Group's interests in the jointly controlled entity are as follows:

Place and date of establishment	Registered capital	Paid-up capital	Attributable equity interest indirectly held by the Company	Principal activity
PRC, 31 March 2003	US$50,000,000	US$50,000,000 (2010: US$22,000,000)	100% *(Note)*	Property development in the PRC

Note: Under the terms of the sino-foreign co-operative joint venture agreement entered into by the parties, (i) GZ Zhoutouzui is obligated for 100% of the capital of and investment in Yucheng; (ii) GZ Zhoutouzui paid approximately RMB10,000,000 to 廣州越秀企業(集團)公司 (Guangzhou Yuexiu Enterprise (Group) Company Limited) ("**Yuexiu**") as cash compensation in 2005, which has been included in properties under development, and Yuexiu is then no longer entitled to any profit or loss generated by Yucheng; (iii) 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) ("**GZ Port**") will be entitled to 28% of the total gross floor area of the residential units of the project upon completion of the proposed development and after which, GZ Port will no longer be entitled to any profit or loss generated by Yucheng; and (iv) GZ Zhoutouzui will be entitled to 72% of the total gross floor area of the residential units of the project upon completion of the proposed development and the entire profit or loss to be generated by Yucheng. GZ Zhoutouzui is also entitled to all assets other than the 28% properties to be allocated to GZ Port, and obliged to bear all the liabilities of Yucheng under the arrangement.

NOTES TO THE FINANCIAL STATEMENTS

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23. INTERESTS IN JOINTLY CONTROLLED ENTITY (Continued)

The following amounts have been recognised in the Group's consolidated financial statements relating to Yucheng:

The Group	As at 31 December **2011** *RMB'000*	2010 *RMB'000* (Restated) *(Note 4(a))*	As at 1 January 2010 *RMB'000* (Restated) *(Note 4(a))*
Non-current assets	**449**	561,361	496,561
Current assets	**761,351**	1,656	1,597
Current liabilities	**(3,425)**	(5,689)	(734)
Net assets	**758,375**	557,328	497,424
Revenue	**–**	193	88
Net expenses	**(21,519)**	(11,110)	(1,997)
Loss before income tax	**(21,519)**	(10,917)	(1,909)
Income tax	**–**	–	–
Loss after income tax	**(21,519)**	(10,917)	(1,909)

24. INTEREST IN AN ASSOCIATE

The Group	As at 31 December **2011** *RMB'000*	2010 *RMB'000*	As at 1 January 2010 *RMB'000* (Restated) *(Note 4(a))*
Share of net assets of interest of Yaubond under the period of the appointment of receivers	**–**	–	555,798

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

24. INTEREST IN AN ASSOCIATE (Continued)

Notes:

(a) As at 1 January 2010 and up to 23 July 2010, interest in Yaubond was classified as an interest in an associate on the ground that receivers of the security assets were appointed in November 2009 by the lenders of a term loan of HK$220,000,000 (the "**Sky Honest Loan**") to manage the secured assets under the Sky Honest Loan including 51% equity interest in Yaubond, the holding company of the entire interest in the Tianhe Project. In July 2010, the board of directors of Yaubond was restored, and the Company has been able to exercise unilateral control over the subsidiary. Since then, the Group's interests in Yaubond and Huan Cheng have been re-classified from "interest in an associate" to "interests in subsidiaries". The underlying assets and liabilities of Yaubond and Huan Cheng were consolidated in the consolidated statement of financial position of the Group based on their carrying amounts at the time of reclassification.

(b) Details of the associate as at 1 January 2010, which is unlisted, are as follows:

Name of associate	Place of incorporation	Particulars of issued and paid-up capital	Percentage of interest held by the Company indirectly	Percentage of voting rights held by the Company indirectly	Principal activity
Yaubond	BVI	US$18,813,500	100%	49%	Investment holding

(c) Financial information of the associate is as follows:

The Group	As at 31 December 2011 RMB'000	As at 31 December 2010 RMB'000 (Restated) (Note 4(a))	As at 1 January 2010 RMB'000 (Restated) (Note 4(a))
Total assets	–	–	652,242
Total liabilities	–	–	(96,444)
Net assets	–	–	555,798
The Group's share of net assets of associate	–	–	555,798
Revenue	–	–	–
Administrative expenses	–	7,498	–
Finance income	–	(35)	–
Loss before income tax	–	7,463	–
Income tax	–	–	–
Loss after income tax	–	7,463	–
The Group's share of loss of associate	–	7,463	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

25. CONSIDERATION RECEIVABLE

The Group	Notes	As at 31 December 2011 RMB'000	As at 31 December 2010 RMB'000	As at 1 January 2010 RMB'000
			(Restated) (Note 4(a))	(Restated) (Note 4(a))
Disposal of Westin Project	(a)	–	43,970	1,067,709
Disposal of Huan Cheng	(b)	**206,028**	579,822	–
		206,028	623,792	1,067,709
Less: Impairment loss recognised in overdue consideration receivable		**(12,929)**	–	–
		193,099	623,792	1,067,709
Amounts due within one year included in current assets		**(111,809)**	(552,223)	(1,067,709)
Amount due after one year – Huan Cheng		**81,290**	71,569	–

Notes:

(a) The balance relates to the interest-free receivable for the disposal of the Westin Project that was fully received in January 2011.

(b) The balance relates to the outstanding instalments receivable for the disposal of Huan Cheng that is unsecured and interest-free. Netting the design and finance costs to be incurred in the development of the Tianhe Project of approximately RMB49,596,000 and accrued relocation cost of the fire station of RMB5,400,000 that the Group has agreed to bear, the principal amount of the receivable is approximately RMB215,142,000 (2010: RMB593,494,000) and is carried on the statement of financial position at amortised cost of approximately RMB206,028,000 (2010: RMB579,822,000) as at 31 December 2011. A sum of approximately RMB378,352,000 had been received during the current year but an outstanding amount of approximately RMB130,138,000 was due in April 2011 and remained unsettled. Based on the supplemental agreement entered into on 1 July 2011 with, amongst the others, HNA Hotel, the purchaser of the interest in Huan Cheng, HNA Hotel agrees to transfer the property interests of part of the 32nd and 33rd floors of HNA Tower owned by HNA Hotel, which are being leased by the Group as the head office in Guangzhou, to the Group as full and final settlement of the outstanding consideration payable by HNA Hotel of approximately RMB124,738,000 (net of relocation costs). The Directors have assessed the financial position of HNA Hotel for its ability to execute the provisions set out on the supplemental agreement and considered that the remaining balance of the second instalment will be recoverable within one year.

The Directors also believed that HNA Hotel is taking appropriate steps to complete the transfer of ownership and have made a provision for impairment loss of RMB12,929,000 based on the estimated discounted cash flows from the as-if disposal of the properties to be transferred from HNA Hotel.

The final instalment of approximately RMB81,290,000 is receivable when the construction of the properties are completed, which is expected to occur in more than twelve months from the end of reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

26. PROPERTIES HELD FOR SALE

The Group	As at 31 December 2011 RMB'000	As at 31 December 2010 RMB'000 (Restated) (Note 4(a))	As at 1 January 2010 RMB'000
Completed properties held for sale	**106,717**	112,460	–

All completed properties held for sale as at 31 December 2011 and 2010 were located in the PRC.

27. ANALYSIS OF PROPERTIES

(a) The analysis of the net book value of completed properties is as follows:

The Group	As at 31 December 2011 RMB'000	As at 31 December 2010 RMB'000 (Restated) (Note 4(a))	As at 1 January 2010 RMB'000 (Restated) (Note 4(a))
Medium-term land lease in the PRC			
– Investment properties	**495,000**	480,000	367,000
Long-term land lease in the PRC			
– Properties held for sale	**106,717**	112,460	–
	601,717	592,460	367,000

(b) The investment properties were revalued on an open market value basis by an independent firm of professional valuers, DTZ Debenham Tie Leung Limited, Chartered Surveyors, as at 31 December 2011.

(c) The Group's investment properties and properties held for sale with carrying amounts as disclosed in note 47 are pledged to secure bank borrowings of the Group, as disclosed in note 34(a), at the end of the reporting period.

(d) Gross rental income from investment properties and properties held for sale amounted to RMB17,363,000 (2010: RMB15,642,000) and RMB1,886,000 (2010: RMB430,000) respectively during the year ended 31 December 2011.

28. LOAN TO NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The Group

The balance is unsecured, interest bearing at 15% per annum and repayable by 31 December 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. TRADE AND OTHER RECEIVABLES

The Group	Notes	As at 31 December 2011 RMB'000	As at 31 December 2010 RMB'000 (Restated) (Note 4(a))	As at 1 January 2010 RMB'000 (Restated) (Note 4(a))
Current or less than 1 month		**171**	64	97
1 to 3 months		**159**	–	–
More than 3 months but less than 12 months		**374**	–	–
Trade receivables, net of impairment	*(a), (b)*	**704**	64	97
Refundable earnest money in development project		**10,000**	–	–
Tender deposit in development project		**6,000**	–	–
Prepaid construction costs		**98,202**	6,180	4,511
Business taxes and surcharges paid for pre-sold properties		**28,386**	3,189	18,658
Interest receivable on bank deposits		**5,993**	2,426	–
Deposits, prepayments and other receivables		**9,203**	4,448	4,862
		158,488	16,307	28,128

Notes:

(a) The Group has a policy of allowing an average credit period of 8 to 30 days to its trade customers. The Group's formal credit policy in place is to monitor the Group's exposure to credit risk through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) The analysis of the Group's trade receivables which are past due but not impaired is as follows:

The Group	As at 31 December **2011** *RMB'000*	2010 *RMB'000*	As at 1 January 2010 *RMB'000*
1 to 3 months past due	**179**	–	–
More than 3 months but less than 12 months past due	**374**	–	–
	553	–	–

The balances of other classes within trade and other receivables of the Group are neither past due nor impaired. They mainly comprise deposits with government authorities and utility service providers. Management considers that the credit risk associated with these receivables are minimal.

The movements of impairment loss on trade receivables of the Group are as follows:

The Group	**2011** *RMB'000*	2010 *RMB'000* (Restated) *(Note 4(a))*
At beginning of year	**434**	470
Impairment loss recognised	**215**	–
Bad debts recovered	**(54)**	(36)
At end of year	**595**	434

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

30. RESTRICTED AND PLEDGED DEPOSITS

		The Group			The Company		
		As at 31 December		As at 1 January	As at 31 December		As at 1 January
		2011	2010	2010	**2011**	2010	2010
	Notes	***RMB'000***	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*	*RMB'000*
			(Restated) *(Note 4(a))*	(Restated) *(Note 4(a))*			(Restated) *(Note 4(a))*
To secure for:							
– letters of credit issued by banks which guarantee repayment of money market loans	*(a)*	**487,585**	480,000	–	**–**	–	–
– the payment of construction cost of a development project	*(b)*	**68,628**	52,404	19,050	**–**	–	–
– the repayment of interests accrued in the convertible notes and other borrowings		**–**	–	14,879	**–**	–	14,862
		556,213	532,404	33,929	**–**	–	14,862

Notes:

(a) As at 31 December 2011, to secure two back-to-back letters of credit issued by two local banks in the PRC to a Hong Kong-based bank and guarantee repayment of the latter's grant of a money market loan facility in a total of US$ 67,700,000 (approximately RMB425,480,000) to the Group (as disclosed in note 34(b)), bank deposits with an aggregate balance of RMB487,585,000 were placed in two local banks in the PRC.

(b) The balance represents deposits received from buyers of pre-sold properties. These deposits shall be released only to pay construction costs of the development project in Guiyang.

31. CASH AND CASH EQUIVALENTS

	The Group			The Company		
	As at 31 December		As at 1 January	As at 31 December		As at 1 January
	2011	2010	2010	**2011**	2010	2010
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*	*RMB'000*
		(Restated) *(Note 4(a))*	(Restated) *(Note 4(a))*		(Restated) *(Note 4(a))*	(Restated) *(Note 4(a))*
Short-term bank deposits	**487,585**	480,000	–	**–**	–	–
Cash at bank and in hand	**268,839**	76,751	134,905	**1,986**	246	14,907
	756,424	556,751	134,905	**1,986**	246	14,907
Less: Restricted and pledged deposits *(Note 30)*	**(556,213)**	(532,404)	(33,929)	**–**	–	(14,862)
	200,211	24,347	100,976	**1,986**	246	45

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. TRADE AND OTHER PAYABLES

The Group	As at 31 December 2011 RMB'000	As at 31 December 2010 RMB'000 (Restated) (Note 4(a))	As at 1 January 2010 RMB'000 (Restated) (Note 4(a))
Current or less than 1 month	**385**	296	660
1 to 3 months	**2,502**	–	62
More than 3 months but less than 12 months	**709**	–	474
More than 12 months	**3,063**	3,144	3,009
Total trade payables	**6,659**	3,440	4,205
Construction costs payable	**71,408**	67,364	15,381
Advanced payments received			
– Pre-sale deposits received from buyers	**476,955**	59,182	216,695
– Receipts in advance, rental and other deposits from buyers, customers and/or tenants	**12,449**	10,336	1,743
Accrued transaction costs in relation to disposal of subsidiaries	**1,489**	39,489	63,565
Interest payable on bank and other borrowings	**2,538**	9,082	32,639
Other accrued expenses and other payables	**31,212**	29,451	33,758
	602,710	218,344	367,986

33. FINANCIAL GUARANTEE CONTRACT

The Company

During the year ended 31 December 2010, the Company provided corporate guarantee to secure for the repayment of a subsidiary's borrowings as disclosed in note 34(e). During the year ended 31 December 2011, the subsidiary's borrowings were fully repaid and the corporate guarantee was released.

During the year ended 31 December 2011, the Company provided another corporate guarantee to secure for the repayment of a subsidiary's borrowings as disclosed in note 34(b). However, with the valuation assessed by the independent valuer, Savills Valuation and Professional Services Limited, the Directors consider that the value of the guarantee is minimal and therefore, no financial guarantee contract is recognised as at 31 December 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. BANK AND OTHER BORROWINGS AND FINANCIAL DERIVATIVE LIABILITIES

		The Group			The Company		
		As at 31 December		As at 1 January	As at 31 December		As at 1 January
		2011	2010	2010	**2011**	2010	2010
	Notes	***RMB'000***	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*	*RMB'000*
			(Restated)	(Restated)		(Restated)	
			(Note 4(a))	*(Note 4(a))*		*(Note 4(a))*	
Bank and other borrowings							
Interest-bearing, secured							
– bank borrowings							
(i) term loan and construction loan	*(a)*	**128,500**	206,200	217,500	**–**	–	–
(ii) money market loans	*(b)*	**425,480**	444,429	–	**–**	–	–
– other borrowings							
(i) Bonds	*(c)*	**151,580**	–	–	**151,580**	–	–
(ii) Sky Honest Loan	*(d)*	**–**	–	193,644	**–**	–	–
(iii) other	*(e)*	**–**	32,672	43,723	**–**	–	–
Interest-bearing, unsecured							
– other borrowings	*(f)*	**80,000**	70,000	–	**80,000**	40,000	–
		785,560	753,301	454,867	**231,580**	40,000	–
Financial derivative liabilities							
– Warrants	*(c)*	**4,355**	–	–	**4,355**	–	–

Notes:

(a) As at 31 December 2011, the bank borrowings are secured by mortgages of ownership titles of: (i) properties held for/under development; (ii) properties held for sale and (iii) investment properties with an aggregate carrying amount of approximately RMB917,416,000 (2010: RMB977,213,000). The bank loans carry interest at variable market rates ranging from 6.12% to 6.65% per annum (2010: 5.76% to 5.85% per annum) as at 31 December 2011. An amount of RMB55,000,000 (2010: RMB125,700,000) will be repayable in full in 2012 and the balance of RMB73,500,000 (2010: RMB80,500,000) will be repaid by quarterly instalment until 2019.

(b) A sum of RMB487,585,000 (2010: RMB480,000,000) was deposited with two banks in the PRC which were used to secure money market loans aggregated at US$67,700,000 (approximately RMB425,480,000) extended by a bank in Hong Kong. In addition to the pledge of deposits, the Company provides a corporate guarantee of US$41,600,000 (approximately RMB261,447,000) (2010: Nil) to secure for the repayment of the money market loans during the year. The money market loans carry variable interests at the rate of 1 year US$ LIBOR of 1.04% plus spread rate at 3.70% per annum in respect of the loan of US$39,200,000 and 4 months US$ LIBOR of 0.42% plus a spread rate at 4.10% per annum in respect of the loan of US28,500,000 (2010: 3 months US$ LIBOR of 0.28% to 0.29% plus a spread rate at 1.80% per annum), and are repayable in March 2012 and November 2012 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. BANK AND OTHER BORROWINGS AND FINANCIAL DERIVATIVE LIABILITIES (Continued)

Notes: (Continued)

(c) On 2 September 2011, the Company (i) entered into with a subscriber of the Bonds an agreement pursuant to which the Company has conditionally agreed to issue 20% secured and guaranteed bonds due 2013 in the principal amount of HK$200,000,000 (RMB165,740,000) (the "**Bonds**") and (ii) executed a warrant conferring rights to the subscriber of the Bonds to subscribe in aggregate up to a principal amount of HK$10,000,000 (RMB8,287,000) for shares of the Company, exercisable in whole or in part at any time during the subscription period from 20 September 2012 to 19 September 2013 at an initial subscription price of HK$0.7187 per Share (subject to adjustment). The Bonds were issued at 20 September 2011, amortised at the effective interest method by applying the effective interest rate of 23.30% per annum, and are repayable at 19 September 2013. The fair value of the Bonds as at 31 December 2011 is approximately RMB150,192,000.

The warrants are not listed on the Stock Exchange and are accounted for as financial derivative liabilities at fair value through profit or loss.

The movements of the Bonds are as follows:

	Nominal value *HK$'000*	Liability component *RMB'000*
Issue of the Bonds	200,000	162,798
Interest paid in advance	–	(16,574)
Issue costs	–	(829)
	200,000	145,395
Accrued interest expense	–	9,589
Exchange differences	–	(3,404)
Amounts due after one year	200,000	151,580

Mr. YU Pan, controlling shareholder of the Company unconditionally and irrevocably guarantees and undertakes that, among other things, if for any reason the Company does not pay any sum payable by it under the Bonds and the relevant transaction documents on the specified date, Mr. YU will pay that sum to the bondholder immediately following demand of the holder of the Bonds.

In addition to the personal guarantee, Mr. YU Pan, through his indirect beneficially interest in Grand Cosmos, has charged all his rights, title and interest from time to time in and to the security shares, details of which have been disclosed in note 48(b), by way of first fixed charge in favour of the holder of the Bonds.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. BANK AND OTHER BORROWINGS AND FINANCIAL DERIVATIVE LIABILITIES (Continued)

Notes: (Continued)

(d) On 9 June 2010, the Company and certain subsidiaries entered into the restructuring agreement with the security agent acting for the lenders of the Sky Honest Loan in the principal value of HK$220,000,000 pursuant to which the indebtedness due to the lenders of the Sky Honest Loan was reduced to approximately RMB152,557,000 (HK$176,000,000), which is 80% of the outstanding principal of the Sky Honest Loan and all the outstanding interest was waived, if the Group can satisfy the payment obligations on or before 4 October 2010, or otherwise, before 4 January 2011 subject to surcharges.

The indebtedness due for the Sky Honest Loan was written down by approximately RMB38,139,000 and the accrued interests of approximately RMB44,009,000 were reversed, leading to a gain on debt extinguishment totaling approximately RMB82,148,000 (as disclosed in note 8) recognised for the year ended 31 December 2010. The Sky Honest Loan and surcharges were then fully settled in 2010.

(e) The amount represents the balance of consideration payable for an acquisition of a subsidiary in 2006. The debt is secured by the Company's corporate guarantee (as disclosed in note 33), and carries interest at the rate of 20% per annum. The debt was fully repaid in March 2011.

(f) As at 31 December 2011, the balance represents unsecured loans advance from a third party bearing interest at the rate of 20% per annum and is fully repayable in December 2012.

As at 31 December 2010, the balance represented unsecured loans advance from a third party which were fully repaid in April 2011.

At the end of the reporting period, the bank and other borrowings were repayable as follows:

	The Group			The Company		
	As at 31 December		As at 1 January	As at 31 December		As at 1 January
	2011	2010	2010	**2011**	2010	2010
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*	*RMB'000*
		(Restated)	(Restated)		(Restated)	
		(Note 4(a))	*(Note 4(a))*		*(Note 4(a))*	
On demand or within one year	**567,480**	679,801	244,367	**80,000**	40,000	–
More than one year, but not exceeding two years	**158,580**	7,000	7,000	**151,580**	–	–
More than two years, but not exceeding five years	**31,500**	27,300	153,100	**–**	–	–
After five years	**28,000**	39,200	50,400	**–**	–	–
	785,560	753,301	454,867	**231,580**	40,000	–
Amounts due within one year included in current liabilities	**(567,480)**	(679,801)	(244,367)	**(80,000)**	(40,000)	–
Amounts due after one year	**218,080**	73,500	210,500	**151,580**	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

35. CONVERTIBLE NOTES

The Group and the Company	As at 31 December **2011** *RMB'000*	2010 *RMB'000*	As at 1 January 2010 *RMB'000*
			(Restated) *(Note 4(a))*
Convertible notes, due within one year	–	–	1,810,858

The convertible notes in the aggregate principal amount of US$200,000,000 (equivalent to approximately HK$1,562,380,000) were issued on 4 May 2007 to the noteholders. The convertible notes bear a coupon of 4% per annum payable semi-annually in arrear, maturity terms of 6 years and an annual yield-to-maturity of 15%. As at 1 January 2010, the face value of the outstanding convertible notes and their accrued interest were US$192,000,000 (approximately RMB1,320,198,000) and approximately US$71,358,000 (approximately RMB490,660,000), totaling approximately US$263,358,000 (approximately RMB1,810,858,000).

On 7 June 2010, the Company and certain subsidiaries and Mr. YU Pan entered into an agreement with the trustee of the noteholders. Pursuant to the agreement, the indebtedness due to the noteholders was reduced to US$153,600,000 (approximately RMB1,062,193,000), being 80% of the outstanding face value of the convertible notes and the outstanding interest was waived, for the convertible notes if the Group can satisfy the payment obligations on or before 4 October 2010 or otherwise, before 4 January 2011 subject to surcharges.

The indebtedness due for the convertible notes were written down by US$38,400,000 (approximately RMB260,020,000) and the accrued interests were reversed by approximately RMB592,038,000, leading to a gain on debt extinguishment of approximately US$87,433,000 (RMB852,058,000) (as disclosed in note 8) recognised for the year ended 31 December 2010. The convertible notes and surcharges were then fully settled in 2010.

36. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY

The Group

The balances due to 貴州協輝房地產開發有限公司 (Guizhou Xiehui Property Development Company Limited) ("**Guizhou Xiehui**") and 貴州眾佳和力房地產信息諮詢有限公司 (Guizhou Zhongjia Heli Properties Consulting Company Limited), are unsecured, interest-free and have no fixed terms of repayment but are expected to be repaid within one year.

Interest expense on loans from non-controlling shareholders is calculated using the effective interest method by applying the effective interest rate of 6% per annum to the carrying amount.

As at 31 December 2010, the balance due to Guizhou Xiehui was unsecured, interest-free and had no fixed terms of repayment but was further agreed not to be repayable within eighteen months from the end of the reporting period, and is expected to be repaid RMB40,549,000 within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

37. DEFERRED INCOME

The Group

On 26 July 2010, a framework agreement ("**Agreement**") for the transfer of the entire equity interest in Huan Cheng, the project company for the development of the Tianhe Project, was entered into between the Company, Yaubond and a third party, HNA Hotel for a gross sale consideration ("**Consideration**") of RMB1,090,000,000, before certain adjustments. Details of the adjustment mechanism to the Consideration and timing of the payment of the Consideration was set out in the Company's circular dated 19 August 2010 which is supplemented by a memorandum of understanding signed on 8 September 2010 by the contracting parties in relation to a reduction of the finance cost to be borne by the Group.

As at 31 December 2011, deferred income (having the Consideration been increased by approximately RMB38,273,000 representing adjustment of net assets transferred to HNA Hotel and reduced by future development costs and finance costs to be borne by the Group, which are estimated to be RMB20,000,000 and RMB35,000,000 respectively) was estimated to be approximately RMB977,431,000.

Since the disposal of Huan Cheng, total proceeds amounting to approximately RMB858,131,000, being the first instalment and partial payment of second instalment, have been received from HNA Hotel. The remaining balance receivable before impairment loss as at 31 December 2011 of approximately RMB215,142,000 (2010: RMB593,494,000) is detailed in note 25(b).

The Directors consider that the Agreement constitutes an agreement for the sale of goods/services and the criteria for recognition of revenue set out in paragraph 14 of HKAS 18 "Revenue" apply. At the end of reporting period, the Directors are uncertain about the due performance of certain obligations under the Agreement in particular, the costs to be deducted from the Consideration under the prevailing agreement caused by overruns in construction costs not due to the change in design plan proposed by HNA Hotel and the delay in construction of the project beyond 32 months from the date of the first instalment payment. Accordingly, the Directors are of the view that the revenue recognition criteria set out in HKAS 18 have not been fully satisfied and therefore the disposal of the assets and liabilities of the Tianhe Project is not recognised until when substantial part of the revenue can be ascertained reliably. The revenue and associated costs of the Tianhe Project are deferred until the construction is completed to a substantial progress where the revenue can be reliably measured. Therefore, the net sale consideration is recorded as deferred income as at 31 December 2010 and 2011. The costs of the Tianhe Project are not derecognised, but instead included in properties held for development in the consolidated statement of financial position as detailed in 20(b).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

38. DEFERRED TAX LIABILITIES

Movements of the deferred tax liabilities are as follows:

The Group	Notes	Revaluation of properties: Investment properties RMB'000	Revaluation of properties: Properties held for/under development RMB'000	Total RMB'000
At 1 January 2010, as restated	4(a)	61,940	76,608	138,548
Charges to profit or loss		28,250	–	28,250
Transfer from interest in an associate upon discharge of receivers	24(a)	–	94,758	94,758
Transfer in relation to the Tianhe Project		–	(94,758)	(94,758)
At 31 December 2010 and at 1 January 2011, as restated	4(a)	**90,190**	**76,608**	**166,798**
Charges to profit or loss		**3,750**	**–**	**3,750**
At 31 December 2011		**93,940**	**76,608**	**170,548**

As at 31 December 2011, the Group and the Company have estimated unutilised tax losses of approximately RMB91,605,000 (2010: RMB53,596,000 (restated) (Note 4(a))) and RMB10,658,000 (2010: RMB26,398,000 (restated) (Note 4(a))) respectively for offsetting against future assessable profits. The unrecognised tax losses may be carried forward indefinitely or up to five years from the year in which the loss was originated. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

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39. SHARE CAPITAL

(a) Authorised and issued share capital

The Group and the Company	Number of shares '000	Nominal value of share capital HK$'000	Equivalent nominal value of share capital RMB'000 (Note 4(a))
Authorised:			
Ordinary shares of HK$0.01 each	29,000,000	290,000	301,600
Convertible preference shares of HK$0.01 each	1,000,000	10,000	9,716
At 1 January 2010 and at 31 December 2010 and 2011	**30,000,000**	**300,000**	**311,316**
Issued and fully paid:			
Ordinary shares of HK$0.01 each	1,477,687	14,777	15,040
Convertible preference shares of HK$0.01 each	–	–	–
At 1 January 2010 and at 31 December 2010 and 2011	**1,477,687**	**14,777**	**15,040**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

39. SHARE CAPITAL (Continued)

(b) Capital management policy

The primary objective of the Company'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 shareholders' value.

The Company manages its capital structure and makes adjustments to it by adjusting applicable policies on dividend pay-out, return to shareholders and debt and equity raising or redemption, in the light of changes in economic conditions. There have been no material changes in these objectives and policies or processes during the current and prior years.

The Company monitors capital using gearing ratio, which is calculated as net debt to the summation of capital and net debt. Net debt includes bank and other borrowings, financial derivative liabilities, loans from non-controlling shareholders of a subsidiary and convertible notes less cash and cash equivalents and restricted bank deposits backing up the money market loans. Capital represents equity attributable to owners of the Company.

The gearing ratio as at the end of the reporting period is calculated based on the following:

	As at 31 December		As at 1 January
	2011	2010	2010
The Group	***RMB'000***	*RMB'000*	*RMB'000*
		(Restated)	(Restated)
		(Note 4(a))	*(Note 4(a))*
Total debt	**958,335**	940,191	2,472,299
Less: restricted bank deposits backing up the money market loans	**(487,585)**	(480,000)	–
Less: cash and cash equivalents	**(200,211)**	(24,347)	(100,976)
Net debt	**270,539**	435,844	2,371,323
Equity attributable to owners	**1,564,712**	1,615,080	736,467
Capital plus net debt	**1,835,251**	2,050,924	3,107,790
Gearing ratio	**14.7%**	21.3%	76.3%

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For the year ended 31 December 2011

40. RESERVES

The Group	Note	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Property revaluation reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Foreign exchange reserve RMB'000	Capital reserve RMB'000	(Accumulated losses) retained profits RMB'000	Total RMB'000
At 1 January 2010, as restated	4(a)	1,216,194	16,116	13,294	34,499	(293,095)	6,471	(196)	–	(271,856)	721,427
Reallocation of lapsed options from share-based payment reserve to retained profits		–	–	(43)	–	–	–	–	–	43	–
Contribution from non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	7,351	–	7,351
Exchange differences arising on foreign operations		–	–	–	–	–	–	(173)	–	–	(173)
Profit for the year		–	–	–	–	–	–	–	–	871,435	871,435
At 31 December 2010 and at 1 January 2011, as restated	4(a)	**1,216,194**	**16,116**	**13,251**	**34,499**	**(293,095)**	**6,471**	**(369)**	**7,351**	**599,622**	**1,600,040**
Recognition of equity-settled share-based payment expenses		–	–	1,519	–	–	–	–	–	–	1,519
Exchange differences arising on foreign operations		–	–	–	–	–	–	(26)	–	–	(26)
Loss for the year		–	–	–	–	–	–	–	–	(51,861)	(51,861)
At 31 December 2011		**1,216,194**	**16,116**	**14,770**	**34,499**	**(293,095)**	**6,471**	**(395)**	**7,351**	**547,761**	**1,549,672**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

40. RESERVES (Continued)

The Company	Note	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	(Accumulated losses) retained profits RMB'000	Total RMB'000
At 1 January 2010, as restated	4(a)	1,216,194	16,116	13,294	(494,774)	750,830
Reallocation of lapsed options from share-based payment reserve to retained profits		–	–	(43)	43	–
Profit for the year		–	–	–	617,734	617,734
At 31 December 2010 and at 1 January 2011, as restated	4(a)	**1,216,194**	**16,116**	**13,251**	**123,003**	**1,368,564**
Recognition of equity-settled share-based payment expenses		**–**	**–**	**1,519**	**–**	**1,519**
Loss for the year		**–**	**–**	**–**	**(91,520)**	**(91,520)**
At 31 December 2011		**1,216,194**	**16,116**	**14,770**	**31,483**	**1,278,563**

(a) The following describes the nature and purpose of each reserve within owners' equity:

Share premium — The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.

Contributed surplus reserve — The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to the capital re-organisation.

Under the Companies Act 1981 of Bermuda, the Company may make distributions to its owners out of the contributed surplus reserve under certain circumstances.

Share-based payment reserve — The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(q).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

40. RESERVES (Continued)

(a) The following describes the nature and purpose of each reserve within owners' equity: (Continued)

Property revaluation reserve	Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from non-controlling shareholders prior to 1 January 2007.
Merger reserve	The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World Trading Limited.
Statutory reserves	In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Company were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund.
Foreign exchange reserve	The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(o).
Capital reserve	The amount represents the portion of contribution from the non-controlling shareholder of a subsidiary attributable to owners of the Company.

(b) **Distributable reserves**

As at 31 December 2011, the distributable reserves available for distribution to owners of the Company were RMB47,599,000 (2010: RMB139,119,000 (Restated) (Note 4(a))).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "**2005 Scheme**"). The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2005 Scheme include the Directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee (including the executive and non-executive Directors), executive or officer of any member of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company. Each option gives the holder the right to subscribe or one ordinary share in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. of the total number of shares of the Company in issue as at the date of adoption of the 2005 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10 per cent. limit under the 2005 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10 per cent. of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2005 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30 per cent. of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1 per cent. of the total number of shares in issue at the offer date (the "**Individual Limit**"). Any further grant of options in excess of the Individual Limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its associates abstaining from voting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the "**Board**") in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

Details of the movement of the share options are as follows:

Date of grant	Exercise period	Exercise price	Number of options outstanding at 1 January 2011	During the year ended 31 December 2011: Options granted *(Note)*	Options exercised	Options lapsed	Number of options outstanding at 31 December 2011
12 September 2006	13 March 2007/2008/2009 to 31 July 2015	HK$1.31	45,900,000	–	–	–	45,900,000
11 August 2011	11 August 2012 to 10 August 2021	HK$0.70	–	8,666,665	–	–	8,666,665
11 August 2011	11 August 2015 to 10 August 2021	HK$0.70	–	8,666,667	–	–	8,666,667
11 August 2011	11 August 2018 to 10 August 2021	HK$0.70	–	8,666,668	–	–	8,666,668
			–	26,000,000	–	–	26,000,000
			45,900,000	26,000,000	–	–	71,900,000
Analysis by category:							
Directors			4,800,000	5,000,000	–	–	9,800,000
Other employees			36,100,000	21,000,000	–	–	57,100,000
Non-employees			5,000,000	–	–	–	5,000,000
			45,900,000	26,000,000	–	–	71,900,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Date of grant	Exercise period	Exercise price	Number of options outstanding at 1 January 2010	During the year ended 31 December 2010 Options granted	Options exercised	Options lapsed	Number of options outstanding at 31 December 2010
12 September 2006	13 March 2007/2008/2009 to 31 July 2015	HK$1.31	46,050,000	–	–	(150,000)	45,900,000
Analysis by category:							
Directors			4,800,000	–	–	–	4,800,000
Other employees			36,250,000	–	–	(150,000)	36,100,000
Non-employees			5,000,000	–	–	–	5,000,000
			46,050,000	–	–	(150,000)	45,900,000

Note: The fair value of options granted was determined using the binominal (Cox, Ross, Rubinstein) option pricing valuation model by an independent valuer, Savills Valuation and Professional Services Limited. The significant inputs into the model were share price at the grant date/valuation date, exercise price, expected volatility based on past years historical price volatility of the Company, vesting period of the options, annual risk-free rate, expected life of options, expiration of the options and expected dividend payout rate.

The following information is relevant in the determination of the fair value of options granted during the year under the 2005 Scheme:

	2011
Option pricing model	**Binomial Model**
Closing share price at grant date	**HK$0.67**
Exercise price per share	**HK$0.70**
Contractual life	**10 years**
Annual risk-free rate	**1.84%**
Expected volatility	**74%**
Expected dividend yield	**Nil**

The Group recognised RMB1,519,000 as equity-settled share-based payment expenses for the year ended 31 December 2011 (2010: Nil) in relation to share options granted by the Company. The number of exercisable options as at 31 December 2011 is 45,900,000 (2010: 45,900,000) (granted in 2006). The weighted average remaining contractual life of the outstanding options as at 31 December 2011 is 5.75 years (2010: 4.58 years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of (loss) profit before income tax to net cash from operating activities

	2011	2010
	RMB'000	*RMB'000*
		(Restated)
		(Note 4(a))
(Loss) profit before income tax	**(69,429)**	926,949
Adjustments for:		
Finance costs	**8,746**	142,666
Finance income	**(16,592)**	(3,746)
Equity-settled share-based payment expenses	**1,519**	–
Depreciation of property, plant and equipment	**696**	411
Exchange gain, net	**(19,595)**	(44,571)
Fair value changes in financial derivative liabilities	**1,510**	–
Gain on debt extinguishment	**–**	(934,206)
Share of loss of associate, net of tax	**–**	7,463
Impairment loss on trade and other receivables	**215**	–
Bad debts recovered	**(54)**	(36)
Gain on disposal of property, plant and equipment	**(10)**	–
Fair value changes in investment properties	**(15,000)**	(113,000)
Write-back of trade and other payables	**–**	(503)
Operating loss before working capital changes	**(107,994)**	(18,573)
Increase in properties held for/under development	**(461,654)**	(297,755)
Decrease in properties held for sale	**12,346**	284,271
Decrease (increase) in consideration receivable	**378,352**	(579,822)
(Increase) decrease in trade and other receivables	**(138,295)**	5,103
Increase (decrease) in trade and other payables	**478,410**	(49,220)
Increase in deferred income	**–**	950,125
Cash generated from operations	**161,165**	294,129
Income tax paid	**(16,156)**	(75,065)
Other borrowing costs paid	**(1,898)**	–
Interest paid	**(41,927)**	(25,358)
Net cash from operating activities	**101,184**	193,706

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

43. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

As stipulated by the labour regulations of the PRC, the Group participates in the defined contribution pension plans organised by the municipal and provincial governments for the benefits of its employees in the PRC. The Group is required to make contributions to the plans at ranges of specified percentages of the eligible employees' salaries.

The Group also participates in the 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 and not previously participating in the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 (approximately RMB16,000). The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

Under all the plans, the Group has no other obligation for the payment of its employees' retirement and other post-retirement benefits other than contributions described above.

44. OPERATING LEASE COMMITMENTS

Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

			As at
	As at 31 December		1 January
	2011	2010	2010
The Group	***RMB'000***	*RMB'000*	*RMB'000*
		(Restated)	(Restated)
		(Note 4(a))	*(Note 4(a))*
Within one year	**2,981**	2,245	2,663
Later than one year but within five years	**915**	–	810
	3,896	2,245	3,473

NOTES TO THE FINANCIAL STATEMENTS

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44. OPERATING LEASE COMMITMENTS (Continued)

Lessor

At the end of the reporting period, the Group had commitments for future minimum rental receivable under non-cancellable operating leases in respect of commercial properties leased out which fall due as follows:

The Group	As at 31 December **2011** *RMB'000*	As at 31 December 2010 *RMB'000* (Restated) *(Note 4(a))*	As at 1 January 2010 *RMB'000* (Restated) *(Note 4(a))*
Within one year	**19,799**	14,929	13,892
Later than one year but within five years	**26,660**	23,938	26,345
Later than five years	**7,539**	6,543	–
	53,998	45,410	40,237

45. COMMITMENTS

	As at 31 December **2011** *RMB'000*	As at 31 December 2010 *RMB'000* (Restated) *(Note 4(a))*	As at 1 January 2010 *RMB'000* (Restated) *(Note 4(a))*
The Group			
Expenditure contracted but not provided for in respect of			
– Property construction and development costs	**507,271**	1,036,016	986,015
Expenditure authorised but not contracted for in respect of			
– Property construction and development costs	**2,253,484**	–	–
– Acquisition of land use rights	**1,031,648**	–	–
	3,285,132	–	–
The Company			
Expenditure authorised but not contracted for in respect of			
– Property construction and development costs	**2,253,484**	–	–
– Acquisition of land use rights	**1,031,648**	–	–
	3,285,132	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

46. CONTINGENT LIABILITIES

The Group provides guarantees to the extent of approximately RMB382,691,000 as at 31 December 2011 (2010: RMB184,466,000 (Restated) (Note 4(a))) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying 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. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.

47. PLEDGE OF ASSETS

At the end of the reporting period, the carrying amounts of the Group's assets included in the following categories in the consolidated statement of financial position were pledged to secure credit facilities granted to the Group as disclosed in note 34:

			As at
	As at 31 December		1 January
	2011	2010	2010
The Group	***RMB'000***	*RMB'000*	*RMB'000*
		(Restated)	(Restated)
		(Note 4(a))	*(Note 4(a))*
Investment properties	**284,000**	277,000	209,700
Properties held for/under development	**526,699**	587,753	524,208
Properties held for sale	**106,717**	112,460	–
Restricted and pledged deposits	**487,585**	480,000	14,879
	1,405,001	1,457,213	748,787

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

48. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

(a) Material transactions with related parties

		Transaction amount	
		2011	2010
Related party relationship	**Type of transaction**	***RMB'000***	*RMB'000*
			(Restated)
			(Note 4(a))
Mr. YU Pan, director and controlling shareholder of the Company	Interest expense on short-term loan from a director	–	25

(b) Pledge of shares by the Chairman

To secure for the Bonds with an outstanding principal value of HK$200,000,000 issued by the Company as disclosed in note 34(c) at 31 December 2011, 963,776,271 ordinary shares of the Company held by Grand Cosmos were pledged and first fixed charge over the assets of Grand Cosmos were created in favour of the holder of the Bonds.

Mr. YU unconditionally and irrevocably guarantees and undertakes that, among other things, if for any reason the Company does not pay any sum payable under the Bonds and the relevant transaction documents on the specified date, he will pay that sum to the holder of the Bonds immediately following demand of the holder of the Bonds.

(c) Compensation of key management personnel

The remuneration of members of key management, including directors' emoluments as disclosed in note 12, incurred during the year is as follows:

	2011	2010
	RMB'000	*RMB'000*
		(Restated)
		(Note 4(a))
Short-term benefits	**9,706**	8,709
Other long-term benefits	**204**	133
Equity-settled share-based payment expenses	**1,501**	–
Compensation for loss of office	**3,315**	–
	14,726	8,842

Members of key management are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

NOTES TO THE FINANCIAL STATEMENTS

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49. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial assets of the Group mainly include cash and cash equivalents, restricted and pledged deposits, consideration receivable for disposal of subsidiaries and trade and other receivables. Financial liabilities of the Group include trade and other payables, bank and other borrowings, financial derivative liabilities and loans from non-controlling shareholders of a subsidiary. The Group does not hold any financial instruments for trading purposes at the end of the reporting period.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

(a) Foreign currency risk

The Group and the Company have transactional currency exposures. Such exposures arise from financing and operating activities of the group entities conducted in currencies other than the functional currency.

The carrying amounts of the Group's and the Company's monetary assets (liabilities) which are denominated in currencies other than the functional currencies of the respective group entities at the end of the reporting period are as follows:

	The Group			The Company		
	As at 31 December		As at 1 January	**As at 31 December**		As at 1 January
	2011	2010	2010	**2011**	2010	2010
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*	*RMB'000*
		(Restated)	(Restated)		(Restated)	(Restated)
		(Note 4(a))	*(Note 4(a))*		*(Note 4(a))*	*(Note 4(a))*
Restricted and pledged deposits						
– US$	**–**	–	14,862	**–**	–	14,862
– HK$	**–**	–	17	**–**	–	–
Cash and cash equivalents						
– US$	**73,433**	6,486	8	**5**	4	–
– HK$	**4,083**	1,745	1,651	**1,981**	242	45
Bank and other borrowings						
– US$	**(425,480)**	(444,429)	–	**–**	–	–
– HK$	**(151,580)**	(32,672)	(43,723)	**(151,580)**	–	–
Financial guarantee contract						
– HK$	**–**	–	–	**–**	(35,372)	(45,999)
Financial derivative liabilities						
– HK$	**(4,355)**	–	–	**(4,355)**	–	–
Convertible notes						
– US$	**–**	–	(1,810,858)	**–**	–	(1,810,858)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

49. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(a) Foreign currency risk (Continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in the United States dollars and HK$ exchange rates, with all other variables held constant, on the Group's and the Company's (loss) profit after income tax in the next accounting period:

	2011		2010	
	Change in exchange rate	**(Decrease) increase in loss after income tax**	Change in exchange rate	Increase (decrease) in profit after income tax
	%	***RMB'000***	%	*RMB'000*
				(Restated) *(Note 4(a))*
The Group				
If United States dollar weakens against Renminbi	**4%**	**(14,082)**	4%	17,643
If United States dollar strengthens against Renminbi	**4%**	**14,082**	4%	(17,643)
If Hong Kong dollar weakens against Renminbi	**4%**	**(6,074)**	4%	1,244
If Hong Kong dollar strengthens against Renminbi	**4%**	**6,074**	4%	(1,244)
The Company				
If Hong Kong dollar weakens against Renminbi	**4%**	**(6,158)**	4%	1,413
If Hong Kong dollar strengthens against Renminbi	**4%**	**6,158**	4%	(1,413)

NOTES TO THE FINANCIAL STATEMENTS

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49. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(b) Interest rate risk

The following table details the interest rate profile of the Group's and the Company's financial assets and liabilities as at the end of the reporting period based upon which the Company's management evaluates the interest rate risk:

	As at 31 December				As at 1 January	
	2011		2010		2010	
	Effective interest rate (% per annum)	Amount RMB'000	Effective interest rate (% per annum)	Amount RMB'000 (Restated) (Note 4(a))	Effective interest rate (% per annum)	Amount RMB'000 (Restated) (Note 4(a))
The Group						
Financial assets						
Fixed rate receivables						
– Loan to non-controlling shareholder of a subsidiary	**15.00%**	**5,100**	–	–	–	–
– Restricted and pledged deposits	**3.00% to 3.50%**	**487,585**	2.25%	480,000	–	–
Floating rate receivables						
– Restricted and pledged deposits	**0.50%**	**68,628**	0.36%	52,404	0.00%	33,929
– Other cash at bank	**0.00% to 0.50%**	**197,678**	0.00% to 0.36%	24,199	0.00% to 0.36%	100,397
Financial liabilities						
Non-interest bearing borrowings						
– Loans from non-controlling shareholders of a subsidiary	**6.00%**	**168,420**	6.00%	186,890	–	206,574
Fixed rate borrowings						
– Other borrowings	**20.00% to 23.30%**	**231,580**	20.00%	102,672	20.00%	43,723
– Convertible notes	**–**	**–**	–	–	15.00%	1,810,858
Floating rate borrowings						
– Bank borrowings	**4.52% to 6.65%**	**553,980**	2.08% to 5.85%	650,629	5.53% to 7.02%	217,500
– Other borrowings	**–**	**–**	–	–	16.75%	193,644
The Company						
Financial assets						
Fixed rate receivables						
– Restricted and pledged deposits	**–**	**–**	–	–	0.00%	14,862
Floating rate receivables						
– Other cash at bank	**0.00%**	**484**	0.00%	4	–	–
Financial liabilities						
Fixed rate borrowings						
– Other borrowings	**20.00% to 23.30%**	**231,580**	20.00%	40,000	–	–
– Convertible notes	**–**	**–**	–	–	15.00%	1,810,858

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

49. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(b) Interest rate risk (Continued)

The Group's exposure to interest rate risk for changes in interest rates primarily relates to the Group's restricted and pledged deposits, cash at bank included in cash and cash equivalents and floating rate bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk of the Group's borrowings.

The following table demonstrates the effect of sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's and the Company's (loss) profit after income tax in the next accounting period:

	2011		2010	
	Increase (decrease) in basis points	**(Decrease) increase in loss after income tax** ***RMB'000***	Increase (decrease) in basis points	Increase (decrease) in profit after income tax *RMB'000*
				(Restated) *(Note 4(a))*
The Group				
Floating rate financial assets				
Increase in floating rate	**100**	**(2,686)**	100	766
Decrease in floating rate	**(100)**	**2,686**	(100)	(766)
Floating rate financial liabilities				
Increase in floating rate	**500**	**27,699**	500	(32,531)
Decrease in floating rate	**(500)**	**(27,699)**	(500)	32,531
The Company				
Floating rate financial assets				
Increase in floating rate	**100**	**(5)**	100	1
Decrease in floating rate	**(100)**	**5**	(100)	(1)

(c) Credit risk

The Group's exposure to credit risk arises from the consideration receivable for disposal of subsidiaries and trade and other receivables. Management has performed in-depth due diligence reviews of the financial background and creditability of the purchaser of the Company's stake interests in Huan Cheng, HNA Hotel on the management's assessment on the ability of HNA Hotel to transfer the ownership in the office units at HNA Tower to the Group.

Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount. At the end of the reporting period, there is no significant concentration of credit risk in trade and other receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

49. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(c) Credit risk (Continued)

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and restricted and pledged deposits, arises from possible default of the counterparty. At the end of the reporting period, the Group has placed these deposits with banks and financial institutions of high credit.

(d) Liquidity risk

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The Group							
31 December 2011							
Trade and other payables	**7,427**	**11,302**	**583,981**	**–**	**–**	**–**	**602,710**
Bank and other borrowings	**–**	**186,665** *(Note)*	**429,310** *(Note)*	**197,523**	**40,371**	**30,474**	**884,343**
Loans from non-controlling shareholders of a subsidiary	**–**	**–**	**172,875**	**–**	**–**	**–**	**172,875**
	7,427	**197,967**	**1,186,166**	**197,523**	**40,371**	**30,474**	**1,659,928**
31 December 2010 (Restated) *(Note 4(a))*							
Trade and other payables	4,878	48,664	164,802	–	–	–	218,344
Bank and other borrowings	14,800	6,810	687,317 *(Note)*	11,150	37,033	43,496	800,606
Loan from non-controlling shareholder of a subsidiary	–	–	40,549	159,707	–	–	200,256
	19,678	55,474	892,668	170,857	37,033	43,496	1,219,206
1 January 2010 (Restated) *(Note 4(a))*							
Trade and other payables	42,678	97,588	227,720	–	–	–	367,986
Bank and other borrowings	237,367	4,317	22,787	18,338	167,051	56,891	506,751
Convertible notes	1,810,858	–	–	–	–	–	1,810,858
Loan from non-controlling shareholder of a subsidiary	–	–	–	206,574	–	–	206,574
	2,090,903	101,905	250,507	224,912	167,051	56,891	2,892,169

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

49. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The Company							
31 December 2011							
Other payables	**584**	**526**	**2,206**	**–**	**–**	**–**	**3,316**
Other borrowings	**–**	**–**	**110,954**	**186,415**	**–**	**–**	**297,369**
Amounts due to subsidiaries	**1,068,011**	**–**	**–**	**–**	**–**	**–**	**1,068,011**
	1,068,595	**526**	**113,160**	**186,415**	**–**	**–**	**1,368,696**
31 December 2010 (Restated) *(Note 4(a))*							
Other payables	1,028	383	2,724	–	–	–	4,135
Financial guarantee contract	–	–	37,519	–	–	–	37,519
Other borrowings	–	–	44,339	–	–	–	44,339
Amounts due to subsidiaries	726,170	–	–	–	–	–	726,170
	727,198	383	84,582	–	–	–	812,163
1 January 2010 (Restated) *(Note 4(a))*							
Other payables	8,123	5,691	523	–	–	–	14,337
Financial guarantee contract	43,723	–	8,745	–	–	–	52,468
Convertible notes	1,810,858	–	–	–	–	–	1,810,858
	1,862,704	5,691	9,268	–	–	–	1,877,663

Note: As at 31 December 2011, the bank borrowings of the Group of US$67,700,000 (approximately RMB425,480,000 (2010: RMB444,429,000)), which is due within one year from the end of reporting period, are secured by standby letters of credit issued by two banks that are secured by the Group's bank deposits of RMB487,585,000 (2010: RMB480,000,000) maturing at the same time of the bank borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

50. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The following table shows the carrying amount and fair value of financial assets and liabilities of the Group and of the Company at the end of the reporting period:

	As at 31 December				As at 1 January	
	2011		2010		2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Restated) (*Note 4(a)*)	(Restated) (*Note 4(a)*)	(Restated) (*Note 4(a)*)	(Restated) (*Note 4(a)*)
The Group						
Financial assets						
Trade and other receivables	**158,488**	***(Note)***	16,307	*(Note)*	28,128	*(Note)*
Consideration receivable	**193,099**	***(Note)***	623,792	*(Note)*	1,067,709	*(Note)*
Loan to non-controlling shareholder of a subsidiary	**5,100**	***(Note)***	–	–	–	–
Restricted and pledged deposits	**556,213**	***(Note)***	532,404	*(Note)*	33,929	*(Note)*
Cash and cash equivalents	**200,211**	***(Note)***	24,347	*(Note)*	100,976	*(Note)*
Financial liabilities						
Trade and other payables	**602,710**	***(Note)***	218,344	*(Note)*	367,986	*(Note)*
Bank and other borrowings – the Bonds	**151,580**	**150,192**	–	–	–	–
Bank and other borrowings – other than the Bonds	**633,980**	***(Note)***	753,301	*(Note)*	454,867	*(Note)*
Financial derivative liabilities	**4,355**	**4,355**	–	–	–	–
Convertible notes	**–**	**–**	–	–	1,810,858	*(Note)*
Loans from non-controlling shareholders of a subsidiary	**168,420**	***(Note)***	186,890	*(Note)*	206,574	*(Note)*
The Company						
Financial assets						
Amounts due from subsidiaries	**110,023**	***(Note)***	147,173	*(Note)*	14,023	*(Note)*
Other receivables	**322**	***(Note)***	355	*(Note)*	612	*(Note)*
Restricted and pledged deposits	**–**	**–**	–	–	14,862	*(Note)*
Cash and cash equivalents	**1,986**	***(Note)***	246	*(Note)*	45	*(Note)*
Financial liabilities						
Other payables	**3,316**	***(Note)***	4,135	*(Note)*	14,337	*(Note)*
Amounts due to subsidiaries	**1,068,011**	***(Note)***	726,170	*(Note)*	–	–
Financial guarantee contract	**–**	**–**	35,372	35,372	45,999	45,999
Other borrowings – the Bonds	**151,580**	**150,192**	–	–	–	–
Other borrowings – other than the Bonds	**80,000**	***(Note)***	40,000	*(Note)*	–	–
Financial derivative liabilities	**4,355**	**4,355**	–	–	–	–
Convertible notes	**–**	**–**	–	–	1,810,858	*(Note)*

Note: The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

50. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (CONTINUED)

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

– The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions.

– The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, option pricing models are used for option derivatives.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2011
	Level 2
The Group and the Company	***RMB'000***
Financial liabilities at fair value through profit or loss	
– Derivatives	**4,355**

51. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 6 January 2012, the Company won a tender for the development of certain lands in the core district of Wuxiang New Zone (五象新區), Liangqing District, Nanning, Guangxi Province, the PRC and paid a sum of RMB6,000,000 to the 南寧市良慶區人民政府 (the People's Government of Liangqing District, Nanning) (the "**Liangqing Government**") as tender deposit. The total gross floor area of the whole development project is approximately 1,000,000 square meters of which properties with a floor area of approximately 300,000 square meters will be built for the resettlement of original occupants that will be repurchased by the resettlement residents at prices to be agreed and the remaining area of approximately 700,000 square meters is to be developed in phases for residential properties for sale. As at the date of this report, no legally binding contract has been entered into yet though a framework agreement has been in negotiation between the Company and Liangqing Government.

52. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 23 March 2012.

FIVE YEAR FINANCIAL SUMMARY

The following table summaries the results, assets and liabilities of the Group:

	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
For the year ended 31 December					
Revenue	**32,951**	366,493	268,609	502,658	120,955
(Loss) profit before income tax	**(69,429)**	926,949	(1,508,925)	642,442	241,226
Income tax credit (expense)	**7,600**	(45,798)	409	41,510	57,864
(Loss) profit for the year	**(61,829)**	881,151	(1,508,516)	683,952	299,090
Attributable to					
– Owners of the Company	**(51,861)**	871,435	(1,502,385)	684,646	287,235
– Non-controlling interests	**(9,968)**	9,716	(6,131)	(694)	11,855
	(61,829)	881,151	(1,508,516)	683,952	299,090
FINANCIAL POSITION					
At 31 December					
Total assets	**4,417,261**	4,032,560	3,836,645	4,654,710	4,627,661
Total liabilities	**(2,792,111)**	(2,386,074)	(3,084,503)	(2,395,005)	(3,040,576)
Net assets	**1,625,150**	1,646,486	752,142	2,259,705	1,587,085
Non-controlling interests	**(60,438)**	(31,406)	(15,675)	(21,806)	–
Equity attributable to owners of the Company	**1,564,712**	1,615,080	736,467	2,237,899	1,587,085

PARTICULARS OF MAJOR PROPERTIES

Location	Lease period	Site area	Development type	Gross floor area (GFA)	Effective equity interest % held	Stage of development	Anticipated completion	Open market value	Market value attributable to the Group
		(sq.m.)		*(sq.m. approx.)*				*RMB'000* *(Note 1)*	*RMB'000*
(A) Details of the Group's properties held for/under development and properties held for sale at 31 December 2011 are as follows:									
1. A plot of waterfront land at the north	2009	43,609	Above ground:		72%	Preliminary	2015	**2,900,000**	**2,900,000**
of Mayong, the east of Pearl River, and	to		Residential	148,326		construction		*(Note 2 & 3)*	*(Note 2 & 3)*
south of Zhujiang and the west of	2049/		Office	29,981		works			
Hongde Road, Zhoutouzui Haizhu District,	2059/		Hotel/	15,565		commenced			
Guangzhou, Guangdong Province, the PRC.	2079		Serviced apartment						
			Commercial	2,063					
			Ancillary	7,642					
			Overhanging layer	12,904					
			Underground:						
			Commercial	954					
			Carpark and facilities	98,038					
				315,473					
2. Various completed residential units,	2008	136,447	Residential		55%	Construction	2014	**1,100,000**	**605,000**
retail units and car parking units of	to	(excluding	– Phase 1			of Phase 2		*(Note 2)*	*(Note 2)*
Phase I, whole of Phase II and III of	2048-49/	roads)	(completed			and 3 in			
the proposed residential development	2078-79		and unsold)	2,238		progress			
known as Skyfame City, Xiaoguan			– Phase 2	169,711					
Maochong, Yunyan District, Guiyang,			– Phase 3	198,130					
Guizhou Province, the PRC.			Commercial	14,157					
			Un-occupied public						
			facilities	7,885					
			Basement	102,735					
				494,856					
3. Phase I of "Yongzhou Land", known as	2011-	70,950	Residential	155,800	70%	Commence	2013 to 2014	**145,000**	**101,500**
Yangming Avenue Project, Junction of	2051/2081		Commercial	25,469		construction		*(Note 2)*	*(Note 2)*
Yangming Avenue, Xiangkouguan Road			Ancillary	1,100		in second			
and Lizhi Road, Lingling District,			Carparks	28,465		quarter of			
Yongzhou, Hunan Province, the PRC.						2012			
				210,834					
				1,021,163				**4,145,000**	**3,606,500**
(B) Details of the Group's investment properties at 31 December 2011 are as follows:									
All the shops on 2/F and 5/F, units	2000		Office/retail	19,790	100%	–	–	495,000	495,000
402-403 of 4/F and units 140-142,	to								
6/F of commercial podium,	2040								
Tianyu Garden Phase 2,									
Nos. 136-146 Linhe Zhong Road,									
Tianhe District, Guangzhou,									
Guangdong Province, the PRC.									
Total (A to B)								**4,640,000**	**4,101,500**

Notes:

1. The properties were revalued on an open market value basis by an independent firm of professional valuers, DTZ Debenham Tie Leung Limited, Chartered Surveyors, as at 31 December 2011.

2. Valuation of open market value of the properties is based on the assumptions that the properties will be developed and completed in accordance with the Group's latest development proposal, and that all consents, approvals and licences from relevant government authorities have been obtained without onerous condition or delay.

3. The open market value has already excluded the entitlement of 28% interest over the completed properties in the development by a Chinese cooperative joint venture partner.