



China Properties Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1838

POWER VISION

Annual Report
2011

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Wang Shih Chang, George (*Chairman*)
Mr. Wong Sai Chung (*Managing Director*)
Mr. Xu Li Chang

Non-executive Director

Mr. Kwan Kai Cheong

Independent Non-executive Directors

Mr. Warren Talbot Beckwith
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao

COMMITTEES

Audit Committee

Mr. Warren Talbot Beckwith (*Chairman*)
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao

Remuneration Committee

Dr. Wang Shih Chang, George (*Chairman*)
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge

AUTHORIZED REPRESENTATIVES

Dr. Wang Shih Chang, George
Mr. Wong Sai Chung

COMPANY SECRETARY

Ms. Yu Ling Ling

STOCK CODE

1838

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

14th Floor, Wheelock House
20 Pedder Street
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman
KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
China Development Bank Corporation
Hang Seng Bank Limited
Industrial and Commercial Bank of China

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPANY'S WEBSITE

cpg-group.com

CHAIRMAN'S STATEMENT

The economy was still in chaos and turbulence during the year. Not even the general public who has little understanding of economics would now believe in the reliability of their governments. When the European economy plummeted, the European Union pumped money into the market and even printed banknotes when it was running out of resources. When the United States' economy burst, the Federal Reserve also turned on its money printing machines, driving its M2 to over 100% of the nation's GDP. In order to maintain a rapid GDP growth, China printed loads of money with an M2 of 180% of its GDP. In view of the above, although the current CPI remains low, could hyperinflation still be kept at bay in the near future?

The PRC government restricts the prices and purchase of real properties. However, barred from purchasing real properties, can the wealth of hot money not flow to other targets? Therefore, the key lesson to be learnt here is that the bubble caused by the hot money will burst eventually. Without a mature legal system and scientific administration, the ability of the government to mitigate the economic crisis is questionable. Although the economy will recover sooner or later after the burst, the process will be harsh with the collapse of an uncountable number of businesses. It is hoped that the Group will not be one of the victims.

The Group's property projects held for sale will amount to near RMB100 billion upon completion. Together with its commercial street projects that will worth over RMB100 billion upon completion, the Group has to seek ways to survive intact in such chaotic time.

The Group's strategy will continue to focus on maintaining a low amount of debts in order to safeguard its quality assets. Meanwhile, various non-core projects such as Shanghai Cannes and Chongqing Manhattan City can be sold at prevailing prices so as to realize profits in cash that will be enough to finance the Group's operating and capital expenditures for over three years. The Group will also acquire lands with reasonable prices and high quality when opportunities arise. On the other hand, the Group will wait and look for good prices before selling Shanghai Concord City located at Nanjing Road, Chongqing Concord City located at Jiefangbei and Chongqing Global Twin Towers located at the city's center. Also, the construction of the commercial streets located at Shanghai Nanjing Road Concord City, Chongqing Jiefangbei Concord City and Chongqing Global Twin Towers will be accelerated since whether at a time of inflation or steady economic expansion, these projects are expected to generate huge rental income for the Group.

Dr. Wang Shih Chang, George
Chairman

Hong Kong, March 29, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Group strategies

2011 is a challenging year. Looking ahead, the Group would continue to master property development projects, both residential and commercial, with sizable and distinct quality, in prime locations in the People's Republic of China ("PRC"). Our overall objectives are to exploit business opportunities, achieve sales growth, and enhance income as planned.

Key property development projects are as follows:

- **High-end and sizable middle-class residential projects**

There are both high-end residential and well-located projects for the growing middle-class in both Shanghai and Chongqing. Luxurious design and leading residential projects, characterized by themes and motifs, are connected with mass transit system with rapid, convenient and efficient transportation.

- **Modern and upscale theme shopping street developments**

These are modern, well-designed architectural projects situated at prime retail areas in major cities in the PRC which combines retail, residential, entertainment, cultural and recreational users with great accessibility, a focal point with attractions for residential, investment and business operations.

BUSINESS ENVIRONMENT

Overview of the Mainland Property Market

China's economic growth continued and measures were imposed to calm property prices in 2011. Overall, the real GDP growth for the whole of 2011 was 9.2%, while growth in the fourth quarter was 8.9%, a decrease from the 9.1% growth recorded in the third quarter. The growth rate of fixed asset investment and industrial added value generally displayed deceleration over for the past several months, and the Purchasing Managers' Index dipped to 49 in November 2011, below 50 for the first time since March 2009.

The growth of residential property prices in China were flat in 2011, amid the central government's tightening measures implemented since later 2010 and the wait-and-see attitude adopted by potential buyers. According to the statistics of National Bureau of Statistics of China, in December 2011, the sale prices of newly constructed residential properties among 70 medium and large-sized cities recorded an average growth of 1.6% year-on-year.

Retail sales were regarded as the main driver to bolster the position of China as one of the fastest growing economy in the Asian Pacific region. In 2011, total retail sales reached RMB18,391.9 billion, up 17.1% year-on-year. The prime retail property sector of China remained buoyant. Most cities saw retail rents trending upward steadily. International fast fashion brands grew their store network actively in second and third tier cities.

The office market especially the Grade A sector of the major cities sustained rental growth in 2011. In the fourth quarter of 2011, under the impacts of global economy uncertainties and strong rental growth in previous quarters, leasing activity was observed to slow down in some first tier cities such as Beijing.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Shanghai's Property Market

Shanghai was in the process of economic restructuring in 2011. By the fourth quarter of 2011, Shanghai's real GDP increased by 8.2% to RMB1,919.57 billion.

The Government continued its tightening measures in the property market to help more price return to reasonable levels. The sales transaction has seen the ordinary performance, and the price remained stagnant as many home seekers preferred to sit on the sidelines in anticipation of cheaper cost. The first-hand and second-hand residential sale prices slightly declined 0.4% and 0.5% quarter-on-quarter in the fourth quarter of 2011.

Due to the strong demand and limited supply, the rental increase was recorded in the prime ground retail space, up 0.4% quarter-on-quarter in the fourth quarter of 2011. A shortage of high-quality rental properties and increased demand was reflected in a growth in both rental and occupancy rates.

2011's office market was characterized by market conditions in which demand for high quality office space consistently outpaced supply. This led to a record 19.7% annual Grade A office rental growth. In the fourth quarter of 2011, Shanghai's overall vacancy rates dropped to 4.8% with 3.2 points lower than the previous year's same period vacancy rate. As a high volume of new supply was delivered to the market in the first half of 2011, vacancy rates experienced a temporary rise.

Overview of the Chongqing's Property Market

Chongqing's economy grew steadily in 2011. By the fourth quarter of 2011, the city's real GDP grew 16.4% to RMB1,001.11 billion. The growth surpassed the national average.

In the fourth quarter of 2011, new housing supply and transacted volume had both sharp increases. The market sentiment rallied to a certain extent as developers offered new rounds of preferential prices with better discounts than before. The average luxury apartment price dropped by 6.9% quarter on quarter to about RMB11,000 per square meter, with some of the projects providing discounts around 15%.

Prime retail rent continued to rise slightly by 1.1% quarter-on-quarter in the fourth quarter of 2011. Market absorption remained brisk, and the average vacancy rate recorded a marginal drop by 0.4 percentage point to 9.6% regardless of the large new completion. Looking ahead, more and more international retail brands will move in Chongqing to occupy some prime retail premises for their first store in the city.

The office market maintained good performance in the fourth quarter of 2011. The office rent trended up steadily by 2.6% quarter-on-quarter. Along with the smooth absorption of office spaces delivered in the first three quarters of 2011, the average vacancy rate dropped by 4.8 points to 29.9%.

Outlook of the Mainland Property Market

In the China's Central Economic Work Conference held in December 2011, the central government announced that it would 'maintain the tightening policies, promote the return of home prices to reasonable levels and promote the healthy development of the property market'. At the same time, some local governments also announced to maintain tightening measures throughout 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Although in face of global economic crisis and China's uncertain downtrend, it is expected that China would be sustained to be one of the fastest growing economic bodies over the world. Commercial property market would continue to grow under robust foreign and domestic demand. In addition, attention should be paid to the recent action of the central government to begin monetary easing in 2012 in response to a probable slowdown in both the domestic and global economy. Monetary easing would possess positive impact to the property market of China.

FINANCIAL REVIEW

The Group's profit attributable to equity holders for the year amounted to HK\$1,999 million (2010: HK\$4,478 million) decreased by 55.4% when compared to 2010. The profit before taxation, excluding change in fair value of investment properties, amounted to HK\$241 million (2010: HK\$139 million), an increase of 73.4% when compared with last year.

Earnings per share were HK\$1.11 (2010: HK\$2.48), a decrease of 55.2%, largely in line with the drop in rate of investment property appreciation by 59.5%.

Total assets increased to HK\$58,067 million from HK\$52,475 million as at December 31, 2010, as the Group continues its investment in premium property developments with attendant appreciation in fair values, albeit at a rate lower than last year. Net assets, the equivalent of shareholders' funds, similarly continued to grow to HK\$37,735 million (December 31, 2010: HK\$ 34,286 million), reflecting the solid investment value to shareholders. In terms of value per share, net assets value per share is HK\$20.86 at the end of the reporting period, as compared to HK\$18.95 as at December 31, 2010.

The Group's revenue of HK\$984 million (2010: HK\$207 million), increased by 375.4% when compared with last year, and was mainly due to the increase in revenue from sales of development properties.

The revenue from sales of development properties amounted to HK\$961 million (2010: HK\$181 million), increased by 430.9% as compared with 2010. The Group delivered a gross floor area ("GFA") of approximately 2,345,000 sq. ft. in 2011 (2010: 98,000 sq. ft), a 2,292.9% increase as compared with last year.

Gross profit margin for sales of development properties was 35.5% (2010: 72.9%). The decrease was due to current year's sale and delivered of 2,311,000 sq. ft. of Chongqing Manhattan City Phase 1 while in 2010, sales were mainly generated from Shanghai Concord City and Shanghai Cannes, both of which had a higher gross profit margin than that of Chongqing Manhattan City.

Income from property leasing decreased by 12.5% to HK\$21 million (2010: HK\$24 million). The decrease was attributable to the termination of certain tenancies for the future upgrade construction of the mall development. Property management income was HK\$2 million (2010: HK\$2 million).

The construction of Chongqing Manhattan City, Lijiu Road with total GFA of approximately 21 million sq. ft. continues. During the year, the Group generated income of HK\$937 million from sales of residential properties of Chongqing Manhattan City Phase I. Pre-sales of residential properties of Chongqing Manhattan City Phase II were well received. Deposits received on sales of properties decreased to HK\$1,707 million from HK\$2,321 million as at December 31, 2010 due to the recognition of deposits on sales of Chongqing Manhattan City Phase I as revenue upon delivery.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income, gains and losses was HK\$28 million (2010: HK\$52 million), a drop of 46.2%. Other income mainly comprised of net exchange gain of HK\$22 million (2010: HK\$4 million) and interest from bank deposits of HK\$5 million (2010: HK\$3 million).

During the year under review, selling expenses were HK\$40 million (2010: HK\$4 million), increased by 900.0%. Increase in advertising and promotion expenses was generally in line with the increase in sales of the Group.

Administrative expenses during the year were HK\$104 million (2010: HK\$62 million) which increased by 67.7% over 2010. The increase was mainly attributed to more property related expenses and taxes including stamp duty paid as property construction activities reached a higher level during the year.

Finance costs represent mainly interest expenses and other borrowing costs in relation to bank borrowings and the fixed rate senior notes (the “Note”) issued in April 2007. Since all finance costs equivalent to HK\$313 million (2010: HK\$371 million) were wholly capitalized on various projects, finance costs charged to the profit and loss are nil (2010: Nil).

The changes in fair value of investment properties were HK\$2,385 million (December 31 2010: HK\$5,895 million), a drop of 59.5%. Although the transaction volume of the property market was shrinking with the launch of new real estate tightening measures in recent years, the property price remained steady during the year because the underlying demand remained strong. On the other hand, the central government’s blueprint that advocates Shanghai to become an international financial hub in 2020 also benefited local businesses including the retail and office property markets. Combining these factors, the valuation of investment properties in 2011 is still appreciating but at slower pace as compared to last year. The changes in fair value of investment properties in Shanghai experienced an increase of HK\$1,772 million (2010: HK\$3,361 million). Economic performance in Chongqing, which enjoys one of the highest GDP growth cities in the PRC, was also robust. The changes in fair value of investment properties in Chongqing experienced an increase of HK\$613 million (2010: HK\$2,534 million).

Income tax expense was HK\$626 million (2010: HK\$1,555 million), a decrease of 59.7%. The Group’s effective income tax rate was 23.8% (2010: 25.8%). The significant decrease in income tax expenses was brought by the changes in fair value of investment properties for 2011.

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MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCING

The Group monitors its liquidity requirements on a short to medium term basis and arranges refinancing of the Group's borrowing when appropriate. During the year, the Group raised new bank loans totaling of approximately HK\$226 million (2010: HK\$2,209 million). On the other hand, the Group net received the advance from a shareholder of approximately HK\$1,596 million (2010: net repayment of HK\$205 million).

At the end of the reporting period, the Group's senior notes, bank loans and amount due to a shareholder amounted to approximately HK\$792 million, HK\$3,705 million and HK\$1,807 million respectively, and the Group's total borrowings were HK\$6,304 million, an increase of HK\$1,648 million when compared to December 31, 2010. HK\$2,445 million is repayable within one year whilst the remaining is repayable in the second to fifth year inclusive.

The gearing ratio of the Group as at December 31, 2011 was 13.4% (2010: 11.2%), determined as proportion of the Group's net borrowings (after deducting bank balances and bank deposits) to the shareholder funds.

With cash in hand and banking facilities available, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

There was no material acquisition and disposal of group companies during the year.

TREASURY POLICIES

At the end of the reporting period, approximately 48.2% of the Group's borrowings were in RMB with the balance in HK\$ and US\$. The Group derives its revenue mainly in RMB. Bank balances are maintained mainly in HK\$, US\$ and RMB.

The bank borrowings are principally on a floating rate basis while the senior notes are on a fixed rate basis.

The functional currency of the respective group entities is RMB, the currency of the primary economic environment in which the Group operates. For the purpose of the consolidated financial statements and convenience of the financial statements users, the results and financial position of the Group are expressed in Hong Kong dollars, the presentation currency for the consolidated financial statements.

The Group has not used any interest rate or foreign currency derivative instrument to hedge its exposure to interest rate and foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

During the year, the Group has complied with all banking covenants.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE ON ASSETS

At the end of the reporting period, certain subsidiaries of the Group pledged assets with an aggregated carrying value of HK\$23,019 million (December 31, 2010: HK\$20,423 million) to secure bank loan facilities utilized.

CONTINGENT LIABILITIES

At the end of the reporting period, we guaranteed mortgage loans to purchasers of our properties in the aggregate outstanding principal amount of HK\$1,918 million (December 31, 2010: HK\$1,746 million). During the year, there was no default case. The guarantees were secured by the Group's pledged bank deposits of HK\$1 million (December 31, 2010: HK\$4 million).

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2011, the Group had approximately 374 employees (2010: 310 employees) in Hong Kong and the PRC. The related employees' cost for the year amounted to approximately HK\$31 million (2010: HK\$31 million). The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis, together with reference to the profitability of the Group, remuneration benchmarks in the industry and prevailing market conditions. In addition, share options may be granted from time to time in accordance with the terms of the Group's approved share option scheme to provide incentives and rewards to the employees.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Dr. Wang Shih Chang, George, aged 78

Dr. Wang is the Chairman of our Board and has been with the Group since 1992. He is the Chairman of the remuneration committee of the Company. Dr. Wang is jointly responsible for the formulation of the overall corporate direction and business strategies for the Group with the Managing Director. Dr. Wang has extensive experience in property development and management in the PRC. Prior to joining the Group, Dr. Wang served as a vice president of various companies owned by or associated with Bechtel Group, Inc. from 1962 to 1984 and Fluor Corporation from 1984 to 1986. Bechtel and Fluor are construction and project management companies in the United States of America. Dr. Wang has many years of experience in the operation and management of global conglomerates. He obtained a Master Degree in Civil Engineering and Nuclear Engineering from the University of Michigan and a Ph.D. Degree in Engineering from the University of California, Los Angeles. He is the brother of Mr. Wong Sai Chung, the Managing Director of the Company. Dr. Wang also serves as a director of U.S. Concord (Holding) Limited and Pacific Concord Holding Limited ("PCH") (de-listed).

Wong Sai Chung (汪世忠), aged 62

Mr. Wong is the Managing Director of the Company, and has been with the Group since 1992. Mr. Wong is jointly responsible for the formulation of the overall corporate direction and business strategies for the Group with the Chairman, and has overall responsibility for the Group's policy and management. Mr. Wong has over 20 years of experience in property development and management in the PRC, and has extensive experience in identifying and acquiring precious sizable lands and developing the land into highly marketable properties in top-tier cities in the PRC. Throughout the years, Mr. Wong has established strong and solid connections and contacts in the property industry in the PRC. Mr. Wong founded the PCH Group in March 1982 and has served as the Chairman of PCH Group since its establishment. He is the brother of Dr. Wang Shih Chang, George, the Chairman of the Board. Mr. Wong also serves as a director of U.S. Concord (Holding) Limited and PCH (de-listed). In 1996, he was appointed as the executive director of Concord Land Development Company Limited (de-listed).

Xu Li Chang (徐禮昌), aged 72

Mr. Xu is an Executive Director of the Company. Mr. Xu has been responsible for the project management since joining the Group in September 1998. He pursued his studies at the University of Chongqing (重慶大學) (formerly The Chongqing Institute of Civil Engineering and Architecture) (重慶建築工程學院) and qualified as a senior engineer in the PRC. Mr. Xu was appointed the officer-in-charge of the Neijiang City Municipal Foreign Economic and Technological Co-operation Office in the PRC in 1987. Mr. Xu also worked as the vice general manager at a well-known property development company in 1997 and was responsible for the overall management of the construction projects of that company.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Non-executive Director

Kwan Kai Cheong (關啟昌), aged 62

Mr. Kwan is a Non-executive Director of the Company and has joined the Group for more than ten years. Mr. Kwan served in various positions with Merrill Lynch & Co. Inc. from 1982 to 1993, including as president of the Asia-Pacific Region. Mr. Kwan is currently the president of Morrison & Company Limited, a business consultancy firm; an independent non-executive director of Hutchison Harbour Ring Limited, SPG Land (Holdings) Limited, Goldpoly New Energy Holdings Limited and Win Hanverky Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange. He is an independent non-executive director of Henderson Sunlight Asset Management Limited, which manages the Sunlight Real Estate Investment Trust, and the units are listed on the Main Board of the Stock Exchange. He is also a non-executive director of Galaxy Resources Limited which is listed in the Australian Securities Exchange.

Mr. Kwan holds a Bachelor Degree of Accountancy (Honours) from the University of Singapore. He is a member of the Institute of Chartered Accountants in Australia and a Fellow of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Directors. Mr. Kwan completed the Stanford Executive Program in 1992.

Independent Non-executive Directors

Warren Talbot Beckwith, aged 72

Mr. Beckwith was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the Chairman of the audit committee of the Company. Mr. Beckwith has business management experience in Australia, London and Hong Kong in various industries, including mining, petroleum, property and technology development. Mr. Beckwith is a Fellow of the Institute of Chartered Accountants in Australia, the Hong Kong Institute of Certified Public Accountants, the Australian Institute of Company Directors and the Taxation Institute of Australia. In the past, Mr. Beckwith held directorships and executive positions in public companies listed on stock exchanges in Australia and Hong Kong. Mr. Beckwith formerly served as an independent non-executive director on each of the boards of the then listed Pacific Concord Holding Limited and Concord Land Development Company Limited, both property development companies. Mr. Beckwith was a director and shareholder of Avon Real Estate Pty Ltd., a property development company, and he was also a director of Sentinel Investments Pty Ltd, an Australian-based property development company. He is currently the chairman of Westralian Group Pty Ltd., a Western Australian investment company and corporate financial advisor, and is the executive chairman of Gondwana Resources Limited, an Australian-listed mining company.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Luk Koon Hoo (陸觀豪), aged 60

Mr. Luk was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the member of the audit committee and the remuneration committee of the Company. Mr. Luk is a retired banker, and served Hang Seng Bank Limited from 1975 as a trainee officer and as a director and deputy chief executive in 1994. He was re-designated as managing director in 1996 and retired from Hang Seng Bank Limited in May 2005. Mr. Luk is currently an independent non-executive director of Computime Group Limited, Hung Hing Printing Group Limited and i-Cable Communications Limited, shares of which are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Wheelock Properties Limited and Octopus Holdings Limited, an non-executive director of Wharf T & T Limited and AXA General Insurance Hong Kong Limited. In public duties, Mr. Luk serves as a council member and treasurer of the Chinese University of Hong Kong, a member of Town Planning Board, a member of Witness Protection Review Board Panel and a non-official member of the Operations Review Committee of ICAC. Mr. Luk was born and educated in Hong Kong. He holds a Bachelor of Social Sciences Degree in Statistics from the University of Hong Kong and a Master Degree in Business Administration from the Chinese University of Hong Kong. He is a Fellow of the Hong Kong Institute of Bankers and the Hong Kong Institute of Directors. Mr. Luk is a Non-official Justice of the Peace.

Garry Alides Willinge, aged 62

Mr. Willinge was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the member of the audit committee and the remuneration committee of the Company. Mr. Willinge is a Fellow of the Australian Institute of Company Directors and the Hong Kong Institute of Directors. He graduated with a Bachelor Degree in Science from the University of Melbourne and then attained a Graduate Diploma in Applied Finance and Investment from the Securities Institute Education in Australia (now known as "The Securities Institute of Australia") in 1995. Mr. Willinge had served as director, Global Services, of IBM China/Hong Kong Limited until January 2005. He previously held management positions in a number of IBM Asia Pacific and European business units, including director of New Business Ventures of the Asia Pacific, where he was responsible for forging alliances and joint ventures across Asia in order to expand IBM's services business portfolio. Mr. Willinge was a director, Information Technology, for the Sydney Olympic Games 2000. He also serves as an Adjunct Professor of Business Studies at Curtin University of Technology in Australia. He was assigned to the West Australian Premier in 1990, where he led the Office of Public Sector Management, which focused on leading public sector reform and developing CEO leadership within the sector. In Hong Kong, Mr. Willinge serves as a member of the General Management Committee of the Hong Kong Management Association and an independent non-executive director of JF Household Furnishings Limited, shares of which are listed on the Main Board of the Stock Exchange.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Cheng Chaun Kwan, Michael (鄭燦焜), aged 81

Mr. Cheng was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the member of the audit committee of the Company. Mr. Cheng is a retired property investment and development, corporate finance and accounting consultant. Mr. Cheng was the executive director of Sino Land Company Ltd., a company of which shares are listed on the Main Board of the Hong Kong Stock Exchange in 1987 and retired as director at the end of 1998. Prior to that, Mr. Cheng was the executive director of Henderson Investment Ltd., (formerly Wing Tai Development Co. Ltd.), a company of which shares are also listed on the Main Board of the Hong Kong Stock Exchange, for the period from 1981 to 1987. Mr. Cheng was the chief executive responsible for the listing of Sino Hotels (Holdings) Limited in 1995 on the Main Board of the Hong Kong Stock Exchange. Mr. Cheng is a Fellow of the Association of Chartered Certified Accountants in the U.K.

Wu Zhi Gao (吳志高), aged 67

Mr. Wu was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the member of the audit committee of the Company. Mr. Wu is a retired lecturer and property development consultant. He holds a Bachelor Degree in Mathematics from Fudan University, Shanghai. Prior to joining the Group, he held senior academic positions at the Huadong University (華東師範大學) and Shanghai Education Institute (上海教育學院) and focused on teaching marketing, which included researches on sales and marketing of property development projects. Between 1998 to 2004, Mr. Wu served as the vice principal at the Huadong University. During that period, he also assisted in the development of a residential property project for the Huadong University. For the period from 1996 to 1997, Mr. Wu also served as a vice president for Shanghai Pingan Xinlun Property Development Co. Ltd. (上海平安欣倫物業發展有限公司), a company providing construction, leasing and sales of office premises, as well as property management services, to the Shanghai Education Institute.

The Executive Directors of the Company are also the Senior Management of the Group.

CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Board”) and the management of the Company are committed to a high standard of corporate governance. The Company considers such commitment is essential for the effective management, a healthy corporate culture, a successful business growth, balancing of business risk and enhancing of shareholders’ value.

CORPORATE GOVERNANCE PRACTICES

Throughout 2011 and up to the date of this report, the Company has fully complied with all 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”).

THE BOARD

Responsibilities

The Board assumes responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company’s affairs. The management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Company. The delegated functions and work tasks are reviewed by the Board periodically.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises nine members with three executive directors, one non-executive director and five independent non-executive directors (the “INEDs”). It is the policy of the Company to compose majority of the Board by INEDs, the Board at all times meets the requirements of the Listing Rules relating to appointment of at least three INEDs with at least one INED possessing appropriate professional qualifications, or accounting or related financial management expertise.

Executive Directors

Dr. Wang Shih Chang, George (*Chairman*)
Mr. Wong Sai Chung (*Managing Director*)
Mr. Xu Li Chang

Non-executive Director

Mr. Kwan Kai Cheong

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

Mr. Warren Talbot Beckwith
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao

The relationship among members of the Board and the biographies of the directors were disclosed under the “Directors’ and Senior Management’s Profile” section of the 2011 Annual Report.

The Company has appointed a Managing Director who performs similar functions as a chief executive officer. The position of the Chairman and Managing Director are held by two different persons in order to maintain an effective segregation of duties, independence and a balanced judgment of views. The Chairman provides leadership and is responsible for effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner.

The Managing Director focuses on implementing objectives, policies and strategies approved and delegated by the Board. He has the executive responsibilities over the Company’s day-to-day management and operations. He is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board’s approval.

The Company has received from each INED a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all INEDs to be independent in accordance with the independence guidelines set out in the Listing Rules.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All directors (including non-executive director) of the Company are currently appointed with specific terms for 2 years commencing from February 23, 2011, which are also subject to retirement in accordance with the articles of association of the Company (“Articles”). According to the Articles, at each annual general meeting, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment of directors and assessing the independence of INEDs.

The Board reviews from time to time its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company’s needs and other relevant statutory requirement and regulations.

CORPORATE GOVERNANCE REPORT

In accordance with the Articles, Dr. Wang Shih Chang, George, Mr. Kwan Kai Cheong and Mr. Luk Koon Hoo will retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company's circular contains detailed information of the directors standing for re-election.

TRAINING AND CONTINUING DEVELOPMENT OF DIRECTORS

The Chairman has assessed the development needs of the Board as a whole, with a view to build its effectiveness as a team and to assist in the development of individual skills, knowledge and expertise.

Arrangements have been made to provide each new director a comprehensive, formal and tailored induction on the first occasion of his appointment and continuing briefing and professional development when necessary.

BOARD MEETINGS

The Board aims to meet in person or by means of electronic communication, at least 4 times a year, if necessary, as well as on an ad hoc basis. The individual attendance record of each director at the meetings of the Board, Audit and Remuneration Committees during the year ended December 31, 2011 is set out below.

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to all directors in advance. Notices of regular meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board paper together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep them apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the management whenever necessary.

The company secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors and members of committees for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to the current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

Upon reasonable request, the Company should provide separate independent professional advice to directors to assist them to discharge their duties in the appropriate circumstance.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established two committees, namely, the Audit Committee and the Remuneration Committee for overseeing particular aspects of the Company's affair. The Board committees of the Company are established with defined written terms of reference. The majority of the members of the Board committees are INEDs and the list of the chairman and members of each Board committees are set out under "Corporate Information" in the 2011 Annual Report.

Meeting attendance during the year ended December 31, 2011 is as follows:

Name of Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
Dr. Wang Shih Chang, George	8/8	N/A	1/1
Mr. Wong Sai Chung	8/8	N/A	N/A
Mr. Xu Li Chang	6/8	N/A	N/A
Mr. Kwan Kai Cheong	8/8	2/2	N/A
Mr. Warren Talbot Beckwith	8/8	2/2	N/A
Mr. Cheng Chaun Kwan, Michael	8/8	2/2	N/A
Mr. Luk Koon Hoo	8/8	2/2	1/1
Mr. Garry Alides Willinge	8/8	2/2	1/1
Mr. Wu Zhi Gao	8/8	2/2	N/A

The Audit Committee

Composition of the Audit Committee

Mr. Warren Talbot Beckwith (*Chairman*)
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao

The Company established an Audit Committee comprising 5 INEDs with written terms of reference in compliance with the requirements as set out in Appendix 14 to the Listing Rules. Mr. Warren Talbot Beckwith, who possesses a professional accounting qualification and relevant accounting experience, is the Chairman of the Audit Committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

CORPORATE GOVERNANCE REPORT

The main duties of the Audit Committee include the following:

- (a) To review the Company's financial statements and report, and to consider any significant or unusual items raised by the corporate accounting department or external auditor before submission to the Board.
- (b) To review the relationship with the external auditor by reference to the work performed by the auditor, the fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditor.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system (including anti-fraud) and risk management system and associated procedures.

During the year ended December 31, 2011, the Audit Committee met twice to review the financial results and reports (including continuing connected transactions), financial reporting (including cash flow forecast) and compliance procedures, to review the effectiveness based on report on the Company's internal control and risk management review and processes and the re-appointment of the external auditor. The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

The Audit Committee has not taken a different view from the Board regarding the selection and re-appointment of external auditor.

The Company's annual results and continuing connected transactions for the year ended December 31, 2011 have been reviewed by the Audit Committee.

The Remuneration Committee

Composition of the Remuneration Committee

Dr. Wang Shih Chang, George (*Chairman*)

Mr. Luk Koon Hoo

Mr. Garry Alides Willinge

The Company established a Remuneration Committee comprising an executive director and two INEDs with written terms of reference in compliance with the requirements as set out in Appendix 14 to the Listing Rules. Dr. Wang Shih Chang, George is the Chairman of the Remuneration Committee.

The main duties of the Remuneration Committee include the following:

- (a) To make recommendation to the Board on the policy and structure for all remuneration of the directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration.
- (b) To determine, review and approve the specific remuneration packages of all executive directors and make recommendations to the Board of the remuneration of non-executive directors, taking into account those factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere and desirability of performance-based remuneration.

CORPORATE GOVERNANCE REPORT

- (c) To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the year ended December 31, 2011 and up to the date of this report, the Remuneration Committee met on March 31, 2011 and March 29, 2012 to review the remuneration package of directors and senior management (including granting of share options and bonus to employees and reviewing service contract of each director).

The remuneration of the directors for the year ended December 31, 2011 was set out in note 12 to the consolidated financial statements.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. The obligation to follow the Listing Rules is set out in the terms of the service contracts of each executive director and the letters of appointment of the non-executive directors and each INED.

The directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards as set out in Model Code during the year ended December 31, 2011 and up to the date of this report.

INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group's internal control system includes a well defined management structure with limits of authority which is designed for the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations. In addition, the Group has exercised risk management procedures to identify and prioritize risks for the business to be addressed by management.

During the year ended December 31, 2011, the Board has conducted a review of the effectiveness of the system of internal control of the Group and is satisfied with the scope and effectiveness of the system.

The Board also carried out a review to consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and its training programmes and budget during the year ended December 31, 2011.

MANAGEMENT FUNCTION

The management team of the Company meets regularly to review and discuss with the executive directors on day-to-day operational issues, financial and operating performance as well as to monitor and ensure the management is carrying out the directions and strategies set by the Board properly.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended December 31, 2011.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the “Independent Auditor’s Report” on page 30 and 31.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern.

The remuneration paid and payable to the external auditor of the Group in respect of audit services and non-audit services for the year ended December 31, 2011 are set out below:

	Year ended December 31, 2011 HK\$’000
Services rendered	
— Audit services	2,400
— Non-audit services	932
	3,332

SHAREHOLDERS’ RIGHTS AND INVESTOR RELATIONS

The rights of shareholders are contained in the Company’s Articles. Details of the poll procedures will be explained to shareholders during the proceedings of any general meetings, if necessary.

Poll results are published on the websites of the Stock Exchange and the Company before the designated time on any business day following the meeting in accordance with the Listing Rules.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmans of the Audit Committee and Remuneration Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, will be available to answer questions at the shareholders’ meetings.

Any enquiries by shareholders requiring the Board’s attention can be sent in writing to the company secretary at the Company’s principal place of business in Hong Kong.

OTHERS

Annual Confirmation from Mr. Wong Sai Chung

The Board received a confirmation from Mr. Wong Sai Chung (“Mr. Wong”) that during the year ended December 31, 2011 and up to the date of this report, Mr. Wong has complied with the non-compete undertaking as set out in the Prospectus.

New Business Opportunities

During the year ended December 31, 2011 and up to the date of this report, there have been no new business opportunities which are required to be referred to the INEDs under the deed of undertaking dated February 8, 2007 entered into between Mr. Wong and the Company.

Properties under the Beijing Concord Option, the Beijing Cannes Option and the General Option (collectively the “Options”)

During the year ended December 31, 2011 and up to the date of this report, except the General Option in respect of the property situated south of Jiuzhou Road and east of Mei Dai Factory, Zhuhai, the PRC (the “Zhuhai Property”), no options for the acquisition of the properties under the Beijing Concord Option, the Beijing Cannes Option and the General Option are exercised. The INEDs have considered the respective status of the Beijing Concord Option, the Beijing Cannes Option and the General Option and decided that it is not the appropriate time for the Company to exercise these options. Details of the Options are set out in the prospectus dated February 9, 2007 issued by the Company.

The General Option in respect of the Zhuhai Property previously granted by Mr. Wong had automatically lapsed in accordance with the terms of the Option Agreement as Mr. Wong had ceased to be interested in the Zhuhai Property. Please refer to the Company’s announcement dated September 21, 2011 for further details.

First Right of Refusal for the Properties under Options

During the year ended December 31, 2011 and up to the date of this report, the Company is entitled to the first right of refusal for the properties under Options.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

The Group is principally engaged in the property development and property investment business in the People's Republic of China (the "PRC" or "China").

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2011 are set out in the consolidated statement of comprehensive income on page 32.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the year, the Group revalued all of its investment properties at the year end date. The net increase in fair value of investment properties, which has been credited directly to the consolidated statement of comprehensive income, amounted to HK\$2,385,228,000.

During the year, the addition of investment properties under construction of the Group amounted to approximately HK\$432,658,000.

Details of these and other movements during the year in property, plant and equipment and investment properties of the Group are set out in notes 15 and 17 to the consolidated financial statements respectively.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for each of the five years ended December 31, 2011 is set out on page 90.

PROPERTIES

Particulars of major properties held by the Group are set out on pages 91 to 92.

SHARE PREMIUM AND RESERVES

Details of the movements in the share premium and reserves of the Group for the year ended December 31, 2011 are set out in the consolidated statement of changes in equity on page 35.

SHARE CAPITAL

Details of the movements in Company's share capital during the year are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2011 were as follows:

	HK\$'000
Share premium	7,978,564
Accumulated losses	(1,019,435)
	6,959,129

Under the Companies Law of the Cayman Islands, the share premium of the Company may be distributed subject to the provisions of the Company's Memorandum or Articles of Association and provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

DIRECTORS

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

Executive directors:

Dr. Wang Shih Chang, George (*Chairman*)
Mr. Wong Sai Chung (*Managing Director*)
Mr. Xu Li Chang

Non-executive director:

Mr. Kwan Kai Cheong

Independent non-executive directors:

Mr. Warren Talbot Beckwith
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao

DIRECTORS' REPORT

Each of the executive directors has entered into a service agreement with the Company for another term of two years commencing February 23, 2011.

In accordance with article 87 of the Company's Articles of Association, Dr. Wang Shih Chang, George, Mr. Kwan Kai Cheong and Mr. Luk Koon Hoo will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received from each of the independent non-executive directors a confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

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

Directors' and Chief Executives' Interests in Securities of the Company

As at December 31, 2011, the interests and/or short positions of the directors and chief executives and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in ordinary shares of HK\$0.1 each of the Company

As at December 31, 2011, the long position in ordinary shares and underlying shares of the Company of the directors and the chief executives are as follows:

Name of director	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company	Note
Mr. Wong Sai Chung ("Mr. Wong")	Corporate	1,350,000,000 shares	74.62%	(i)

Note:

- (i) These shares are held directly by Hillwealth Holdings Limited ("Hillwealth") whose entire issued capital is held by Mr. Wong.

(b) Long position in shares of associated corporations of the Company

Name of director	Nature of interest	Name of associated corporation	Number of issued ordinary shares held	Percentage of the issued share of the same class in the associated corporation	Note
Mr. Wong	Corporate	Concord Properties Holding (Shanghai) Limited ("CPH (Shanghai)")	100 non-voting deferred class "B" shares of HK\$1.00 each	100%	(ii)
	Personal	Hillwealth	1 share of US\$1.00	100%	(iii)

Notes:

- (ii) CPH (Shanghai) is an indirectly owned subsidiary of the Company. It has in issue 100 non-voting deferred class "B" shares (the rights attached to which are set out in the Prospectus), all of which are beneficially owned by Concord China Land Holdings Limited which is in turn beneficially and wholly owned by Pacific Concord Holding Limited ("PCH") (which is wholly owned by Mr. Wong).
- (iii) As Hillwealth owns 74.62% and being the substantial shareholder of the Company, Hillwealth is an associated corporation of the Company under the SFO. The entire issued share capital of Hillwealth is owned by Mr. Wong.

As at December 31, 2011, Mr. Wong was a director of Hillwealth, Concord China Land Holdings Limited and PCH, and Dr. Wang Shih Chang, George and Mr. Kwan Kai Cheong were also directors of PCH.

Save as disclosed herein, as at December 31, 2011, none of the directors or chief executives nor their associates had or deemed to have any interests or short positions in any shares or underlying shares or debentures of the Company or any of its associated corporations.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 32 to the consolidated financial statements.

On January 17, 2011, 20,000,000 share options to subscribe for ordinary shares of HK\$0.10 each of the Company were granted to certain eligible participants ("the Grantees"), subject to acceptance of each of the Grantees, under the share option scheme adopted by the Company on February 2, 2007. Details are set out in the Company's announcement dated January 17, 2011.

DIRECTORS' REPORT

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes as disclosed in note 32 to the consolidated financial statements, at no time during the year was the Company, its ultimate holding company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company or their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the related party transactions, certain of which also constitute connected transactions under the Listing Rules disclosed below, during the year are set out in note 33 to the consolidated financial statements.

Other than as disclosed above, no contracts of significance to which the Company, its holding company, fellow subsidiaries 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.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in "Directors' and chief executives' interests in shares and underlying shares and debentures", the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued capital of the Company as at December 31, 2011 and as at the date of this report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2011, the Group had the following connected transactions under the Listing Rules. In the opinion of the directors, such connected transactions were conducted in the normal course of business.

Continuing connected transaction

Office rental and other charges

On July 31, 2008, a tenancy agreement (the "Tenancy Agreement") for the use of the principal place of business of the Company in Hong Kong was entered into between Marnav Holdings Limited (an independent third party) of one part, and Frank Union Limited ("Frank Union") (an associate of Mr. Wong) and the Group of the other part. The Tenancy Agreement is effective from August 1, 2008 to July 31, 2011. The Tenancy Agreement was renewed on July 22, 2011 for a further term of three years from August 1, 2011 to July 31, 2014.

A sharing agreement dated July 31, 2008 and subsequently renewed on July 22, 2011 for a further term of three years from August 1, 2011 to July 31, 2014 (the "Sharing Agreement") was entered into between Frank Union and the Group which both parties agreed that the principal office will be divided into two equal halves and each party will be entitled to occupy, use and possess half of the principal office. The rental and the electricity fee, fixed line telephone charge and other charges will be shared equally by the parties.

Having regard to the fact that (i) the Company is to share at cost the rent, rates, service fee and utilities charges incurred in respect of the premises subject to the Tenancy Agreement and Sharing Agreement proportional to the area used; and (ii) the rent and service fee are negotiated and agreed with an independent third party, rates are imposed by the government and utilities charges by the relevant independent third party service providers, the Directors consider the terms of the Tenancy Agreement and Sharing Agreement to be on normal commercial terms and are fair and reasonable so far as the Company is concerned. The Directors are of the view that the transactions under the Tenancy Agreement and Sharing Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the shareholders as a whole.

During the year, an amount of HK\$3,845,000 and HK\$43,000 was paid and payable for the office rental and office premises expenses respectively in relation to the use of the principal place of business of the Company in Hong Kong.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued a letter containing his conclusion in respect of the continuing connected transactions disclosed by the Group above have no non-compliance with Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

Mr. Wong, managing director of the Company, is interested in certain property development projects in the PRC. Pursuant to the option agreements entered into between the Company and Mr. Wong on February 8, 2007, the Company has the right to acquire most of the properties held, whether directly or indirectly, by Mr. Wong. In addition, pursuant to the non-competition deed dated February 8, 2007 signed by Mr. Wong in favour of the Company (the "Non-competition Deed"), Mr. Wong has undertaken to the Company to make necessary arrangements as stated in the Non-competition Deed to avoid competing with the business of the Group. Details of such arrangements are set out in the prospectus dated February 9, 2007 issued by the Company ("Prospectus").

The Company has received confirmation from Mr. Wong that he has complied with the terms of the Deed of Undertaking since the Listing and up to the date of this report. Furthermore, there was no new business opportunities referred from Mr. Wong to the Company during the same period.

Saved as disclosed above, during the year ended December 31, 2011 and up to the date of this report, none of the directors, the substantial shareholders or the management shareholders had any interests in any business which competed with or might compete with the business of the Group.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's five largest customers were less than 30% of total revenue.

The largest supplier of the Group by itself and taken together with the next four largest suppliers accounted for 6.4% and 19.6% respectively of the Group's total purchases for the year.

At no time during the year did a director, an associate of a director, or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest suppliers.

EMOLUMENT POLICY

As at December 31, 2011, the Group had approximately 374 employees in Hong Kong and in the PRC. The total staff costs incurred were approximately HK\$31 million.

The Group remunerates its employees mainly with reference to individual performance, qualification, experience and the prevailing industry practice. Apart from basic remuneration and statutory retirement benefit scheme, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as individual performance. In addition, share options may be granted from time to time in accordance with the terms of the Company's approved share option scheme to provide incentives and rewards to the employees.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Board and management of the Company are committed to maintain high standards of corporate governance. A report on the principal corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 14 to 21 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the directors, there is sufficient public float of 25% of the Company's issued shares as required under the Listing Rules as at the latest practicable date prior to the issue of this report.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Dr. Wang Shih Chang, George
Chairman

Hong Kong, March 29, 2012

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE MEMBERS OF CHINA PROPERTIES GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Properties Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 89, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 the 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 and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 29, 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

	NOTES	2011 HK\$'000	2010 HK\$'000
Revenue	8	983,785	207,262
Cost of sales		(626,734)	(54,970)
Gross profit		357,051	152,292
Other income, gains and losses	8	27,996	52,144
Selling expenses		(39,942)	(4,288)
Administrative expenses		(104,434)	(61,612)
Finance costs	9	—	—
		240,671	138,536
Changes in fair value of investment properties		2,385,228	5,894,501
Profit before taxation		2,625,899	6,033,037
Income tax expense	10	(626,460)	(1,555,205)
Profit for the year attributable to the owners of the Company	11	1,999,439	4,477,832
Other comprehensive income			
Exchange differences arising on translation to presentation currency		1,441,742	1,272,196
Total comprehensive income for the year attributable to the owners of the Company		3,441,181	5,750,028
Earnings per share			
— Basic (HK dollar)	14	1.11	2.48
— Diluted (HK dollar)	14	1.11	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2011

	NOTES	2011 HK\$'000	2010 HK\$'000
Non-current assets			
Property, plant and equipment	15	283,852	238,196
Prepaid lease payments	16	163,707	161,993
Investment properties	17	51,963,171	47,235,495
		52,410,730	47,635,684
Current assets			
Properties under development for sales	19	3,601,495	3,413,031
Properties held for sales, at cost	20	447,258	302,440
Trade and other receivables, deposits and prepayments	21	325,220	314,957
Tax recoverable		18,145	—
Pledged bank deposits	18	72,207	12,554
Bank balances and cash	18	1,192,134	796,730
		5,656,459	4,839,712
Current liabilities			
Deposits received on sales of properties	22	1,706,686	2,321,316
Other payables and accruals	22	688,438	588,212
Amount due to a shareholder	23	1,456,696	167,189
Tax payable		679,895	665,250
Bank loans, secured — due within one year	24	988,583	683,321
		5,520,298	4,425,288
Net current assets		136,161	414,424
Total assets less current liabilities		52,546,891	48,050,108

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2011

	NOTES	2011 HK\$'000	2010 HK\$'000
Non-current liabilities			
Bank loans, secured — due after one year	24	2,716,642	3,016,650
Fixed rate senior notes	25	791,966	788,402
Deferred tax liabilities	26	10,953,515	9,959,036
Loan from a shareholder	23	350,000	—
		14,812,123	13,764,088
Net assets		37,734,768	34,286,020
Capital and reserves			
Share capital	27	180,907	180,907
Share premium and reserves		37,553,861	34,105,113
Total equity		37,734,768	34,286,020

The consolidated financial statements on pages 32 to 89 were approved and authorized for issue by the board of directors on March 29, 2012 and are signed on its behalf by:

Dr. Wang Shih Chang, George
DIRECTOR

Wong Sai Chung
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

	Attributable to owners of the Company									Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Revaluation reserve HK\$'000	Special reserve HK\$'000 (Note a)	Other reserve HK\$'000 (Note b)	General reserve HK\$'000 (Note c)	Share option reserve HK\$'000 (Note 32)	Exchange reserve HK\$'000	Retained earnings HK\$'000	
At January 1, 2010	180,907	1,378,443	6,410	778,662	2,455,562	51,533	—	2,059,522	21,624,953	28,535,992
Profit for the year	—	—	—	—	—	—	—	—	4,477,832	4,477,832
Exchange differences arising on translation to presentation currency	—	—	—	—	—	—	—	1,272,196	—	1,272,196
Total comprehensive income for the year	—	—	—	—	—	—	—	1,272,196	4,477,832	5,750,028
Transfer to general reserve	—	—	—	—	—	1,482	—	—	(1,482)	—
At December 31, 2010	180,907	1,378,443	6,410	778,662	2,455,562	53,015	—	3,331,718	26,101,303	34,286,020
Profit for the year	—	—	—	—	—	—	—	—	1,999,439	1,999,439
Exchange differences arising on translation to presentation currency	—	—	—	—	—	—	—	1,441,742	—	1,441,742
Total comprehensive income for the year	—	—	—	—	—	—	—	1,441,742	1,999,439	3,441,181
Recognition of share-based payment	—	—	—	—	—	—	7,567	—	—	7,567
At December 31, 2011	180,907	1,378,443	6,410	778,662	2,455,562	53,015	7,567	4,773,460	28,100,742	37,734,768

Notes:

- Special reserve represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the corporate reorganisation ("Corporate Reorganisation") to rationalise the Group structure prior to the listing of the Company's share on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- Other reserve arose from the acquisition by Mr. Wong Sai Chung, the ultimate controlling shareholder of the Company, of the interests in the Company's subsidiaries owned by other shareholders and the implementation of the Corporate Reorganisation.
- As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the subsidiaries established in the PRC may make an allocation to the general reserve from its profit for the year (prepared under the generally accepted accounting principles in the PRC) at a rate determined by directors of the relevant subsidiaries. The general reserve can only be used upon approval by the board of directors of the relevant subsidiaries to offset accumulated losses or increase capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	2011 HK\$'000	2010 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	2,625,899	6,033,037
Adjustments for:		
Net gain from repurchase of senior notes	—	(35,875)
Amortization of prepaid lease payments	53	50
Depreciation of property, plant and equipment	2,890	2,898
Share-based payment expenses	7,567	—
Changes in fair value of investment properties	(2,385,228)	(5,894,501)
Interest income	(4,830)	(3,200)
Loss on disposal of property, plant and equipment	143	3
Operating cash flows before movements in working capital	246,494	102,412
Increase in properties under development for sales	(718,837)	(553,646)
Decrease in properties held for sales	618,891	30,127
Decrease (increase) in trade and other receivables	6,343	(116,853)
Increase in other payables and accruals	76,961	83,419
(Decrease) increase in deposits received on sales of properties	(695,698)	1,717,512
Cash (used in) generated from operations	(465,846)	1,262,971
PRC taxes paid	(63,779)	(41,108)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(529,625)	1,221,863
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(13,774)	(1,359)
Additions to investment properties	(250,658)	(1,109,739)
Withdrawal of pledged bank deposits	2,412	13,669
Placement of pledged bank deposits	(60,753)	(23)
Interest received	4,830	3,200
NET CASH USED IN INVESTING ACTIVITIES	(317,943)	(1,094,252)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	2011 HK\$'000	2010 HK\$'000
FINANCING ACTIVITIES		
Interest paid	(303,297)	(321,414)
New bank loans raised	226,149	2,209,287
Repayments of bank loans	(306,597)	(67,612)
Advance from (repayment to) a shareholder	1,596,383	(205,356)
Loan raised expenses	(5,643)	(17,142)
Repurchase of senior notes	—	(1,503,806)
NET CASH FROM FINANCING ACTIVITIES	1,206,995	93,957
NET INCREASE IN CASH AND CASH EQUIVALENTS	359,427	221,568
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	796,730	550,872
Effect of foreign exchange rate changes	35,977	24,290
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	1,192,134	796,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company is a public limited company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its parent and ultimate holding company is Hillwealth Holdings Limited (“Hillwealth”), a limited company incorporated in the British Virgin Islands (“BVI”). Its ultimate controlling party is Mr. Wong Sai Chung (“Mr. Wong”). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is 14th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

The Company acts as an investment holding company. The subsidiaries of the Company are principally engaged in property development and property investment in the People’s Republic of China (the “PRC”). The principal activities of its principal subsidiaries are set out in note 34.

The functional currency of the Company and the respective group entities is Renminbi (“RMB”), the currency of the primary economic environment in which the Group operates. For the purpose of the consolidated financial statements and convenience of the financial statements users, the results and financial position of the Group are expressed in Hong Kong dollars (“HK\$”), the presentation currency for the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, the following new or revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Amendments to HKAS 32	Classification of rights issues
Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendments to HK(IFRIC) — INT 14	Prepayments of a minimum funding requirement
HKAS 24 (as revised in 2009)	Related party disclosures
HK(IFRIC) — INT 19	Extinguishing financial liabilities with equity instruments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) — continued

The application of these new or revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but not yet effective:

HKAS 1 (Amendments)	Presentation of items of other comprehensive income ¹
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets ²
HKAS 19 (Revised 2011)	Employee benefits ³
HKAS 27 (Revised 2011)	Separate financial statements ³
HKAS 28 (Revised 2011)	Investments in associates and joint ventures ³
HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities ⁴
HKFRS 7 (Amendments)	Disclosures — Transfers of financial assets ⁵
HKFRS 7 (Amendments)	Disclosures — Offsetting financial assets and financial liabilities ³
HKFRS 9	Financial instruments ⁶
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures ⁶
HKFRS 10	Consolidated financial statements ³
HKFRS 11	Joint arrangements ³
HKFRS 12	Disclosure of Interests in other entities ³
HKFRS 13	Fair value measurement ³
HK(IFRIC) — INT 20	Stripping costs in the production phase of a surface mine ³

¹ Effective for annual periods beginning on or after July 1, 2012.

² Effective for annual periods beginning on or after January 1, 2012.

³ Effective for annual periods beginning on or after January 1, 2013.

⁴ Effective for annual periods beginning on or after January 1, 2014.

⁵ Effective for annual periods beginning on or after July 1, 2011.

⁶ Effective for annual periods beginning on or after January 1, 2015.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) — continued

Amendments to HKAS 12 Deferred tax — Recovery of underlying assets

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment property” are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after January 1, 2012. The directors of the Company are in the process of assessing the financial impact.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Under HKFRS 9 requires all recognized financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future will not have a significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities based on an analysis of the financial instruments held by the Group as at December 31, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) — continued

HKFRS 13 Fair Value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 “Financial instruments: Disclosures” will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Group’s consolidated financial statements for the annual period beginning January 1, 2013 and that the application may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Basis of consolidation — continued

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value at consideration received or receivable.

Revenue from sale of properties and pre-completion contracts for the sale of development properties in the ordinary course of business is recognized when all of the following criteria are satisfied:

- the significant risks and rewards of ownership of the properties are transferred to purchasers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The above criteria are met when the construction of relevant properties has been completed, and the title of properties has been transferred or the properties have been delivered to the purchasers pursuant to the sales agreement whichever is earlier and the collectibility of related receivables is reasonably assumed. Deposits and instalments received from purchasers on properties sold prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

Rental income from properties under operating leases is recognized in the consolidated statement of comprehensive income on a straight-line basis over the term of the relevant leases.

Service income is recognized when services are provided.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortized on a straight-line basis over the lease term. During the construction period, the amortization charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognized.

Properties under development for sales

Properties under development for sales are stated at the lower of cost and net realizable value. Cost comprises both the prepaid lease payments for the land and development cost for the property. Net realizable value takes into account the price ultimately expected to be realized, less applicable selling expenses and the anticipated costs to completion.

Development cost of property comprises construction costs, borrowing costs capitalized according to the Group's accounting policy and directly attributable cost incurred during the development period. On completion, the properties are transferred to properties held for sales.

Properties held for sales

Properties held for sales are stated at the lower of cost and net realizable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments

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

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Financial assets — continued

Impairment of financial assets

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

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Financial liabilities and equity instruments

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

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

Effective interest method

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

Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities including bank borrowings, other payables and accruals, amount due to a shareholder and fixed rate senior notes are subsequently measured at amortized cost, using the effective interest method.

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Derecognition — continued

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment losses on assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an 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 recognized 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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Leasing

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

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at that date when the fair value was determined. 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 retranslation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Retirement benefit costs

Payments to the defined contribution retirement benefit schemes and state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured. The fair values of the services received are recognized as expenses on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets. If the fair value of the services received cannot be estimated reliably, the Group shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of equity instruments granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimate of fair value of investment properties

As described in note 17, investment properties under construction were mainly revalued at the end of the reporting period using a residual method by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the valuation, the Group's management has made estimates concerning current prices and rental yield for potential sales proceeds and rental income to be generated by the completed investment properties and made deductions for the estimated development costs and required estimated development profits from the investment properties. The assumptions used are intended to reflect conditions existing at the end of the reporting period. Where there are any changes in the assumptions due to the market conditions in the PRC, the estimate of fair value of investment properties may be significantly affected. As at December 31, 2011, investment properties under construction of approximately HK\$42,513,871,000 (2010: HK\$38,646,453,000) were revalued using a residual method.

Estimate of net realizable value of properties under development for sales and properties held for sales

As at December 31, 2011, properties under development for sales of approximately HK\$3,601,495,000 (2010: HK\$3,413,031,000) and properties held for sales of approximately HK\$447,258,000 (2010: HK\$302,440,000) are stated at the lower of the cost and net realizable value. Cost of each unit in each phase of development is determined using the weighted average method. The estimated net realizable value is estimated selling price less selling expenses and estimated cost of completion (if any), which are estimated based on best available information. Where there are any decrease in the estimated selling price arising from any changes to the market conditions in the PRC, there may be impairment loss recognized on the properties under development for sales and properties held for sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

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 sales of properties less deductible expenditures including sales charges, borrowing costs and all property development expenditure.

The Group is subject to LAT in the PRC which has been included in income tax expense of the Group. Significant judgment is required determining the amount of land appreciation and its related taxes. The Group recognizes these liabilities based on management's best estimates. Where the final outcome of this matter is different from the amounts that were initially recorded, such differences will impact the income tax expense in the period in which such determination is made. As at December 31, 2011, the Group has LAT payables of approximately HK\$636,130,000 (2010: HK\$623,756,000).

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in notes 24 and 25, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risk associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payments of dividends, new share issues, shares buy-backs and the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 HK\$'000	2010 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,279,568	819,072
Financial liabilities		
Amortized cost	6,992,325	5,243,774

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Financial risk management objectives and policies

The Group's major financial instruments include bank balances and cash, pledged bank deposits, bank borrowings, trade and other receivables, other payables and accruals, amount due to and loan from a shareholder and fixed rate senior notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

Foreign currency risk

The Group's transactions are mainly denominated in RMB (which is the functional currency of respective group entities), except for certain bank balances, bank loans and fixed rate senior notes which are denominated in Hong Kong dollars ("HKD") and United States dollars ("USD") as disclosed below. The Group has not used any forward contract to hedge its exposure to currency risk. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. A significant depreciation/appreciation in the RMB against USD and HKD may have a material impact on the Group's results.

As at the end of each reporting period, certain financial assets and financial liabilities of the Group were denominated in HKD and USD which is the currency other than the functional currency of the relevant group entities. The carrying amounts of those foreign currency monetary items are set out below:

	HKD		USD	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Bank balances and cash	105	158	39	4,304
Banks loans	—	—	1,382,940	1,536,600
Fixed rate senior notes	—	—	791,966	788,402

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Market risks — continued

Foreign currency risk — continued

Sensitivity analysis

The Group is mainly exposed to the currency of HKD and USD and the sensitivity analysis includes only outstanding foreign currency denominated monetary items and their translation at the year end for a 5% (2010: 5%) change in foreign currency rates. 5% (2010: 5%) is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates.

A positive number below indicates an increase in post-tax profit for the year where RMB strengthens 5% against USD and HKD for the current year. For a 5% weakening of RMB against USD and HKD, there would be an equal but opposite impact on the post-tax profit for the year.

	HKD impact		USD impact	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Profit for the year	(5)	(8)	108,743	116,035

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 24 for details). The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits and fixed rate senior notes (see note 25 for details). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. In addition, the management monitors the interest rate movement for long term borrowings and will consider to exercise the redemption option for the fixed rate senior notes if necessary.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 1% (2010: 1%) increase or decrease is used in management's assessment of the reasonably possible change in interest rates.

If interest rate relating to its variable-rate bank borrowings of the Group increases or decreases by 1%, finance costs would increase or decrease by approximately HK\$31,247,000 (2010: HK\$31,591,000). Since all the Group's finance costs had been capitalized in investment properties under construction and properties under development for sales, there would be no effect on the Group's post-tax profit for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity tables

	Weighted average interest rate	On demand or less than 1 year HK\$'000	Between 1–2 years HK\$'000	Between 2–5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at December 31, 2011						
Other payables and accruals	N/A	688,438	—	—	688,438	688,438
Amount due to a shareholder	N/A	1,456,696	350,000	—	1,806,696	1,806,696
Variable rates bank borrowings	6.242%	1,208,231	2,704,827	107,945	4,021,003	3,705,225
Fixed rate senior notes	9.125%	73,029	73,029	825,474	971,532	791,966
Financial guarantee contracts	N/A	1,917,608	—	—	1,917,608	—
		5,344,002	3,127,856	933,419	9,405,277	6,992,325
As at December 31, 2010						
Other payables and accruals	N/A	588,212	—	—	588,212	588,212
Amount due to a shareholder	N/A	167,189	—	—	167,189	167,189
Variable rates bank borrowings	5.723%	865,880	1,049,291	2,200,978	4,116,149	3,699,971
Fixed rate senior notes	9.125%	73,029	73,029	898,503	1,044,561	788,402
Financial guarantee contracts	N/A	1,745,712	—	—	1,745,712	—
		3,440,022	1,122,320	3,099,481	7,661,823	5,243,774

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Liquidity risk — continued

Liquidity tables — continued

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Credit risk

As at December 31, 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 28.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

For properties that are still under construction, the Group typically provides guarantees to banks in connection with its customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. Such guarantees expire upon the completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the customer's deposit and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS — continued

Fair value

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

7. SEGMENT INFORMATION

The Company's Chief Executive Officer is the chief operating decision maker. The Group is principally operating in two operating locations of three principal business activities. Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the operating locations of each principal business activity. The principal locations are Shanghai and Chongqing in the PRC. The Group's operating segments under HKFRS 8 are therefore as follows:

Property development (developing and selling of properties)	— Shanghai
	— Chongqing
Property investment (leasing of investment properties)	— Shanghai
	— Chongqing

Others (hotel operation, provision of building management and construction consultancy service)

Information regarding the above segments is presented below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment:

For the year ended December 31, 2011

	Property development		Property investment		Others	Total
	Shanghai	Chongqing	Shanghai	Chongqing		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
External sales	24,181	936,744	20,825	—	2,035	983,785
Segment profit (loss)	10,311	289,124	1,793,530	613,457	(4,085)	2,702,337
Other income, gains and losses						27,996
Unallocated expenses						(104,434)
Profit before taxation						2,625,899

For the year ended December 31, 2010

	Property development		Property investment		Others	Total
	Shanghai	Chongqing	Shanghai	Chongqing		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
External sales	180,839	—	24,356	—	2,067	207,262
Segment profit (loss)	131,648	(1,987)	3,381,380	2,533,383	(1,920)	6,042,504
Other income, gains and losses						47,655
Unallocated expenses						(57,122)
Profit before taxation						6,033,037

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by (loss from) each segment including the changes in fair value of investment properties without allocation of other income, gains and losses, certain selling expenses, central administrative expenses including share-based payment expenses and directors' salaries. This is the measure reported to the Group's Chief Executive Officer for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment which is also the information presented to the Group's Chief Executive Officer:

	2011 HK\$'000	2010 HK\$'000
Segment assets		
Property development		
— Shanghai	793,961	704,981
— Chongqing	3,257,522	3,013,118
Property investment		
— Shanghai	43,469,855	39,967,703
— Chongqing	8,493,316	7,267,792
Others	381,839	333,478
Segment total	56,396,493	51,287,072
Unallocated assets	1,670,696	1,188,324
Consolidated assets	58,067,189	52,475,396
Segment liabilities		
Property development		
— Shanghai	357,196	320,066
— Chongqing	3,525,747	4,006,862
Property investment		
— Shanghai	954,760	989,979
— Chongqing	1,901,745	1,934,363
Others	85,671	31,268
Segment total	6,825,119	7,282,538
Unallocated liabilities	13,507,302	10,906,838
Consolidated liabilities	20,332,421	18,189,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Segment assets and liabilities — continued

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments, other than certain property, plant and equipment, certain prepaid lease payments, other receivables, deposits and prepayments, pledged bank deposits and bank balances and cash which are commonly used among segments or used for corporate operation.
- all liabilities are allocated to operating segments other than certain other payables and accruals, amount due to a shareholder and current and deferred tax liabilities which are corporate liabilities that are unallocated either. Fixed-rate senior notes and banks loans are allocated on a consistent basis with finance costs capitalized. For the year ended December 31, 2010, the net gains from repurchase of senior notes as a result of financing activities conducted centrally by the corporate office was not allocated to respective operating segments as it was not attributable to their operations.

Other segment information

For the year ended December 31, 2011

	Property development		Property investment		Others	Segment total	Adjustments	Total
	Shanghai	Chongqing	Shanghai	Chongqing				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note a)							
Amounts included in the measure of segment profit or loss or segment assets:								
Changes in fair value of investment properties	—	—	1,771,771	613,457	—	2,385,228	—	2,385,228
Additions to non-current assets (Note b)	—	—	144,907	314,561	38,998	498,466	1,724	500,190
Depreciation of property, plant and equipment	—	—	—	—	72	72	4,541	4,613
Amortization of prepaid lease payments	—	—	—	—	4,509	4,509	53	4,562

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Other segment information — continued

For the year ended December 31, 2010

	Property development		Property investment			Segment total	Adjustments	Total
	Shanghai	Chongqing	Shanghai	Chongqing	Others	HK\$'000	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		(Note a)	
Amounts included in the measure of segment profit or loss or segment assets:								
Changes in fair value of investment properties	—	—	3,361,118	2,533,383	—	5,894,501	—	5,894,501
Additions to non-current assets (Note b)	—	—	160,534	1,193,582	—	1,354,116	1,359	1,355,475
Depreciation of property, plant and equipment	—	—	—	—	1,814	1,814	2,898	4,712
Amortization of prepaid lease payments	—	—	—	—	2,474	2,474	50	2,524

Notes:

- All amounts included in the measure of segment profit or loss or segment assets are allocated to operating segments other than certain additions to non-current assets and depreciation of property, plant and equipment and amortization of prepaid lease payments which are related to unallocated assets commonly used between segments or used for corporate operation.
- Non-current assets include the investment properties, property, plant and equipment and prepaid lease payments.

Geographical information

All revenue of the Group are derived from operations in the PRC.

Non-current assets of the Group are mainly located in the PRC (group entity's country of domicile).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION — continued

Information about major customer

Revenue from major customer of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	2011 HK\$'000	2010 HK\$'000
Customer A (Note) [#]	N/A	105,991

Note: The corresponding revenue generated in the year ended December 31, 2011 did not contribute over 10% of total revenue of the Group.

[#] Revenue from property development — Shanghai segment

8. REVENUE AND OTHER INCOME, GAINS AND LOSSES

	2011 HK\$'000	2010 HK\$'000
Revenue		
Sales of residential properties	960,925	180,839
Property rental income	20,825	24,356
Property management income	2,035	2,067
	983,785	207,262
Other income, gains and losses		
Net gain from repurchase of senior notes (Note)	—	35,875
Net exchange gain	22,191	4,489
Interest on bank deposits	4,830	3,200
Others	975	8,580
	27,996	52,144
Total revenue and other income, gains and losses	1,011,781	259,406

Note: The expenses directly attributable to the repurchase of senior note amounted to approximately HK\$21,863,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. FINANCE COSTS

	2011 HK\$'000	2010 HK\$'000
Interest on bank loans wholly repayable within five years	235,131	132,836
Effective interest expense on fixed rate senior notes	77,373	238,479
Total finance costs	312,504	371,315
Less: Amount capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales	(312,504)	(371,315)
	—	—

Borrowing costs capitalized during the year arose on the specific borrowings.

10. INCOME TAX EXPENSE

	2011 HK\$'000	2010 HK\$'000
Current tax		
Enterprise income tax in the PRC	27,747	21,977
LAT in the PRC	2,406	64,630
	30,153	86,607
Deferred tax (note 26)		
Current year	596,307	1,468,598
	626,460	1,555,205

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries, Shanghai Jingan-Concord Real Estate Co., Ltd. ("Jingan Concord"), Shanghai Minhang Concord Property Development Co., Ltd. ("Minhang Concord"), Shanghai Yingduoli Property Management Company Limited ("Property Management Co") and Chongqing Yangtze-Jialing River Real Estate Co., Ltd., is 25% for both years.

Under the Provisional Regulations on LAT implemented upon the issuance of the Provisional Regulations of the PRC on January 27, 1995, all gains arising from transfer of real estate property in the PRC effective from January 1, 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including borrowings costs and all property development expenditures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX EXPENSE — continued

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years in 2010 and 2011.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

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

	2011 HK\$'000	2010 HK\$'000
Profit before taxation	2,625,899	6,033,037
Tax at PRC enterprise income tax rate of 25%	656,474	1,508,259
Tax effect of expenses not deductible for tax purpose	11,014	7,874
Tax effect of income not taxable for tax purpose	(13,612)	(8,969)
LAT	2,406	64,630
Income tax effect of LAT	(602)	(16,157)
Tax effect of utilization of tax losses previously not recognized	(29,220)	—
Income tax at concessionary rate	—	(432)
Income tax for the year	626,460	1,555,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. PROFIT FOR THE YEAR

	2011 HK\$'000	2010 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (note 12)	1,534	1,530
Other staff costs		
— salaries and other benefits	25,528	25,753
— contributions to retirement benefits schemes	4,269	4,059
Total staff costs	31,331	31,342
Less: Amount capitalized in investment properties under construction and properties under development for sales	(11,205)	(12,982)
	20,126	18,360
Share-based payment expenses	7,567	—
Auditor's remuneration	2,400	3,112
Amortization of prepaid lease payments	4,562	2,524
Less: Amount capitalized in construction in progress under property, plant and equipment	(4,509)	(2,474)
	53	50
Depreciation of property, plant and equipment	4,613	4,712
Less: Amount capitalized in construction in progress under property, plant and equipment	(1,723)	(1,814)
	2,890	2,898
Loss on disposal of property, plant and equipment	143	3
Cost of properties sold (included in cost of sales)	620,033	48,984
Compensation to purchasers to re-schedule delivery of properties (included in administrative expenses)	13,903	—
Gross rental income from investment properties	(20,825)	(24,356)
Less: Direct operating expenses from investment properties that generated rental income during the year	610	4,093
	(20,215)	(20,263)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	2011 HK\$'000	2010 HK\$'000
Fees	1,258	1,254
Salaries and allowances	276	276
	1,534	1,530

The emoluments paid to the directors were as follows:

For the year ended December 31, 2011

	Fees HK\$'000	Salaries and allowances HK\$'000	Discretionary bonus HK\$'000 (Note)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Executive directors:					
Dr. Wang Shih Chang, George	—	—	—	—	—
Mr. Wong	—	—	—	—	—
Mr. Xu Li Chang	—	276	—	—	276
	—	276	—	—	276
Non-executive director:					
Mr. Kwan Kai Cheong	240	—	—	—	240
Independent non-executive directors:					
Mr. Warren Talbot Beckwith	240	—	—	—	240
Mr. Cheng Chaun Kwan, Michael	240	—	—	—	240
Mr. Luk Koon Hoo	240	—	—	—	240
Mr. Garry Alides Willinge	240	—	—	—	240
Mr. Wu Zhi Gao	58	—	—	—	58
	1,018	—	—	—	1,018
	1,258	276	—	—	1,534

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS — continued

Directors' emoluments — continued

For the year ended December 31, 2010

	Fees HK\$'000	Salaries and allowances HK\$'000	Discretionary bonus HK\$'000 (Note)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Executive directors:					
Dr. Wang Shih Chang, George	—	—	—	—	—
Mr. Wong	—	—	—	—	—
Mr. Xu Li Chang	—	276	—	—	276
	—	276	—	—	276
Non-executive director:					
Mr. Kwan Kai Cheong	240	—	—	—	240
Independent non-executive directors:					
Mr. Warren Talbot Beckwith	240	—	—	—	240
Mr. Cheng Chaun Kwan, Michael	240	—	—	—	240
Mr. Luk Koon Hoo	240	—	—	—	240
Mr. Garry Alides Willinge	240	—	—	—	240
Mr. Wu Zhi Gao	54	—	—	—	54
	1,014	—	—	—	1,014
	1,254	276	—	—	1,530

Note: The performance related incentive payment is determined by reference to the individual performance of the directors and approved by the remuneration committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS — continued

Employees' emoluments

The emoluments for the five individuals with the highest emoluments in the Group did not include any director for both years, details of whose emoluments are set out above. The emoluments of the five highest paid individuals (2010: five) were as follows:

	2011 HK\$'000	2010 HK\$'000
Salaries and allowances	4,140	3,970
Retirement benefits scheme contributions	97	103
	4,237	4,073

Their emoluments were within the following bands:

	2011 Number of employees	2010 Number of employees
Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	2	2
	5	5

During both years, no remuneration was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during both years.

13. DIVIDENDS

No dividend was paid or declared during 2011 and 2010, nor has any dividend been proposed since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2011 HK\$'000	2010 HK\$'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	1,999,439	4,477,832
	2011 '000	2010 '000
Number of shares		
Number of ordinary shares in issue during the year for the purposes of basic and diluted earnings per share	1,809,077	1,809,077

The computation of diluted earnings per share for the year ended December 31, 2011 did not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares for the year.

No dilutive earnings per share is presented for the year ended December 31, 2010 as there were no potential ordinary shares outstanding during that year and as at December 31, 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK\$'000 (Note)	Buildings HK\$'000	Leasehold improvements HK\$'000	Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST							
At January 1, 2010	60,766	19,268	47	10,579	10,775	—	101,435
Exchange adjustments	2,296	749	1	392	407	—	3,845
Additions	—	728	—	320	311	—	1,359
Transfer from investment properties under construction (note 17)	—	—	—	—	—	167,216	167,216
Disposals	—	—	—	(4)	—	—	(4)
At December 31, 2010	63,062	20,745	48	11,287	11,493	167,216	273,851
Exchange adjustments	2,468	830	2	447	441	6,952	11,140
Additions	—	1,231	—	909	—	38,582	40,722
Disposals	—	—	—	(571)	—	—	(571)
At December 31, 2011	65,530	22,806	50	12,072	11,934	212,750	325,142
DEPRECIATION							
At January 1, 2010	10,634	5,108	47	7,036	6,888	—	29,713
Exchange adjustments	443	218	1	288	281	—	1,231
Provided for the year	1,535	895	—	1,089	1,193	—	4,712
Disposals	—	—	—	(1)	—	—	(1)
At December 31, 2010	12,612	6,221	48	8,412	8,362	—	35,655
Exchange adjustments	516	257	2	323	352	—	1,450
Provided for the year	1,616	998	—	765	1,234	—	4,613
Disposals	—	—	—	(428)	—	—	(428)
At December 31, 2011	14,744	7,476	50	9,072	9,948	—	41,290
CARRYING VALUES							
At December 31, 2011	50,786	15,330	—	3,000	1,986	212,750	283,852
At December 31, 2010	50,450	14,524	—	2,875	3,131	167,216	238,196

Note: On initial recognition, the leasehold land was classified as investment properties carried at fair value. The leasehold land was subsequently transferred to property, plant and equipment during the year ended December 31, 2003.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT — continued

The above items of property, plant and equipment except for construction in progress are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the lease terms
Buildings	Shorter of lease terms and 4.5%
Office equipment, furniture and fixtures, and motor vehicles	18%–19%
Leasehold improvements	Shorter of 4.5% and the remaining term of the land lease on which the buildings are located

Certain of the Group's leasehold land and construction in progress with a carrying value of approximately HK\$24,900,000 (2010: HK\$24,735,000) and HK\$63,117,000 (2010: HK\$56,847,000) respectively were pledged to secure certain banking facilities granted to the Group.

The leasehold land and buildings are located in the PRC under medium-term lease.

16. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments comprises land use rights in the PRC as follows:

	2011 HK\$'000	2010 HK\$'000
Long lease	662	689
Medium-term lease	163,045	161,304
	163,707	161,993

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT PROPERTIES

	2011 HK\$'000	2010 HK\$'000
FAIR VALUE		
Completed properties held for rental purpose (Note a)		
At the beginning of the year	2,865,749	2,837,054
Exchange adjustments	109,817	105,120
Net changes in fair value recognized in profit or loss	89,356	(76,425)
At the end of the year	3,064,922	2,865,749
Leasehold land under and held for construction of properties for rental purpose and investment properties under construction		
At the beginning of the year	41,270,301	33,167,936
Exchange adjustments	1,647,431	1,433,001
Additions	26,810	971,712
Transfer to prepaid lease payments	—	(70,600)
Transfer to properties under development for sales (note 19)	—	(202,674)
Net changes in fair value recognized in profit or loss	2,295,872	5,970,926
At the end of the year	45,240,414	41,270,301
Sub-total	48,305,336	44,136,050
COST		
Investment properties under construction (Note b)		
At the beginning of the year	3,099,445	2,859,660
Exchange adjustments	125,732	112,937
Additions	432,658	382,404
Transfer to construction in progress under property, plant and equipment (note 15)	—	(167,216)
Transfer to properties under development for sales (note 19)	—	(88,340)
At the end of the year	3,657,835	3,099,445
Total	51,963,171	47,235,495

Notes:

- (a) As at December 31, 2011, included in the Group's completed properties held for rental purpose balance are properties in Shanghai, namely, Shanghai Concord City Phase I with carrying amount of approximately HK\$2,517,074,000 (2010: HK\$2,351,848,000); of which around 40% (2010: 30%) is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants.
- (b) The amount represents the construction costs for the building portion of certain investment property projects. The land portion is measured at fair value and grouped under leasehold land under and held for construction of properties for rental purpose and investment properties under construction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT PROPERTIES — continued

The fair values of certain of the Group's investment properties at December 31, 2011 and 2010 were arrived at on the basis of a valuation carried out on those dates by Cushman & Wakefield Valuation Advisory Services (HK) Ltd. ("C&W") in respect of the investment properties situated in Shanghai and Chongqing, the PRC. C&W is an independent qualified professional valuer not connected with the Group, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The fair values of investment properties in Shanghai and Chongqing determined by C&W are approximately HK\$40,447,549,000 (2010: HK\$37,172,952,000) and HK\$5,131,244,000 (2010: HK\$4,339,250,000) respectively as at December 31, 2011. For completed investment properties, the valuations have been arrived at using the capitalization of net income method of valuation, based on the present value of the income to be derived from the properties. For the properties which are currently vacant, the valuation was based on capitalization of the hypothetical and reasonable market rents with a typical lease term. For investment properties under construction or development, the valuations have been arrived at residual approach by making reference to recent sales transactions of completed properties or rental yield as available in the relevant market to determine the potential sales proceeds or rental income of the completed investment properties, less estimated costs to completion and expected developed profit margin. The rental income included in the residual method was principally based on income approach by taking into account the current rents passing and the reversionary income potential of tenancies.

In July 2010, the Group has acquired a piece of land with total consideration of RMB818,450,000 (equivalent to approximately HK\$963,336,000) which is to be developed together with another piece of land already acquired by the Group in prior year and situated next to this new acquisition. As at December 31, 2011, the development plan on this combined land plot has not yet been approved by the relevant government authority. As at December 31, 2011, the fair values of these two pieces of land in Chongqing amounted to approximately HK\$2,726,543,000 (2010: HK\$2,623,848,000) is determined by the directors. The directors have determined that the valuation of these two pieces of land approximated to the fair value of the existing land plot as at December 31, 2009 plus the acquisition cost of the land just acquired during the year ended December 31, 2010.

For investment properties located in Shanghai

For the year ended December 31, 2011, in determining the fair values of the investment properties located in Shanghai, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

- a. Annual growth rate of rental income is ranging from 3% to 6% (2010: ranging from 3% to 6%)
- b. Occupancy rate for the investment properties is ranging from 50% to 98% (2010: ranging from 50% to 98%)
- c. Expected developer profit is ranging from 10% to 20% (2010: ranging from 10% to 20%)
- d. Discount rate is ranging from 4% to 10% (2010: ranging from 4% to 9%)
- e. Rental rate per month per square metre is ranging from HK\$197 to HK\$1,766 (2010: ranging from HK\$187 to HK\$1,520)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT PROPERTIES — continued

For investment properties located in Chongqing

For the year ended December 31, 2011, in determining the fair values of the investment properties located in Chongqing, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

- a. Annual growth rate of rental income is ranging from 4% to 6% (2010: 4%)
- b. Occupancy rate for the investment properties is ranging from 60% to 80% (2010: ranging from 60% to 85%)
- c. Expected developer profit is ranging from 25% to 30% (2010: ranging from 20% to 30%)
- d. Discount rate is ranging from 7% to 11% (2010: ranging from 6% to 9%)
- e. Rental rate per month per square meter is ranging from HK\$134 to HK\$950 (2010: ranging from HK\$85 to HK\$853)

The investment properties shown above are situated on leasehold land in the PRC as follows:

	2011 HK\$'000	2010 HK\$'000
Long lease	6,341,146	6,040,970
Medium-term lease	45,622,025	41,194,525
	51,963,171	47,235,495

As at December 31, 2011, certain of the Group's investment properties under construction carried at cost with a carrying value of approximately HK\$708,364,000 (2010: HK\$479,697,000) were pledged to secure certain banking facilities granted to the Group.

As at December 31, 2011, certain of the Group's investment properties (excluding investment properties under construction carried at cost) with a carrying value of approximately HK\$19,678,096,000 (2010: HK\$17,920,365,000) were pledged to secure certain banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT PROPERTIES — continued

For investment properties located in Chongqing — continued

All the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at December 31, 2011, the Group obtained four (2010: four) out of seven (2010: seven) State-owned Land Use Rights Certificates ("Certificates") for Chongqing projects sites. The Group was in the process of obtaining the remaining three (2010: three) Certificates. The carrying amounts of the prepaid lease payments, investment properties and properties under development for sales which relate to these remaining three (2010: three) Certificates amounted to approximately HK\$159,516,000 (2010: HK\$157,685,000), HK\$7,115,629,000 (2010: HK\$5,871,694,000) and HK\$535,724,000 (2010: HK\$386,255,000) respectively.

18. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The following bank deposits have been pledged to secure:

	2011 HK\$'000	2010 HK\$'000
Bank loans of the Group	70,939	8,997
Bank loans procured by the purchasers of the Group's properties (Note 28)	1,268	3,557
	72,207	12,554

At December 31, 2011, pledged bank deposits of approximately HK\$72,207,000 (2010: HK\$12,554,000) were pledged for short term borrowings due within one year and the amount was classified as current.

The pledged bank deposits carry effective interest rates which range from 0.50% to 3.10% (2010: 0.36% to 1.71%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings. Bank balances carry interest at market rates which range from 0.01% to 0.50% (2010: 0.01% to 0.36%) per annum.

As at December 31, 2011, pledged bank deposits and bank balances and cash of approximately HK\$72,207,000 (2010: HK\$12,554,000) and HK\$1,191,990,000 (2010: HK\$786,381,000) respectively were denominated in RMB which is not freely convertible into other currencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. PROPERTIES UNDER DEVELOPMENT FOR SALES

	2011 HK\$'000	2010 HK\$'000
Cost		
At the beginning of the year	3,413,031	2,324,384
Exchange adjustments	133,124	112,761
Additions	801,815	684,872
Transfer from leasehold land under and held for construction of properties for rental purpose and investment properties under construction (note 17)	—	202,674
Transfer to properties held for sale	(746,475)	—
Transfer from investment properties under construction (note 17)	—	88,340
At the end of the year	3,601,495	3,413,031
Properties under development for sales of which:		
— expected to be realized within twelve months	847,841	941,430
— expected to be realized over twelve months	2,753,654	2,471,601
	3,601,495	3,413,031

As at December 31, 2011, certain of the Group's properties under development for sales with a carrying value of approximately HK\$2,190,914,000 (2010: HK\$1,656,731,000) were pledged to secure certain banking facilities granted to the Group.

The carrying amount of properties under development for sales are situated on land use rights in the PRC as follows:

	2011 HK\$'000	2010 HK\$'000
Long lease	185,386	175,880
Medium-term lease	3,416,109	3,237,151
	3,601,495	3,413,031

As at December 31, 2011, included in properties under development for sales are properties with a carrying value of HK\$253,786,000 which is put on hold for sale by the governing body. Subsequent to the end of the reporting date, the Group addressed the matter and a release notice was received by the Group from the governing body on March 7, 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. PROPERTIES HELD FOR SALES

As at December 31, 2011, certain of the Group's properties held for sales with a carrying value of approximately HK\$281,939,000 (2010: HK\$276,201,000) were pledged to secure certain banking facilities granted to the Group.

Properties held for sales which

	2011 HK\$'000	2010 HK\$'000
— will be realised within twelve months	199,929	302,440
— will be realised within more than twelve months after the end of the reporting period	247,329	—
	447,258	302,440

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Consideration in respect of completed properties sold are paid in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the agreement date. Consideration in respect of properties sold under pre-sale contracts will be fully received prior to the delivery of the properties to the purchasers.

	2011 HK\$'000	2010 HK\$'000
Trade receivables	2,731	2,628
Prepayment of business taxes and other PRC taxes	131,717	145,148
Other receivables, deposits and prepayments	190,772	167,181
	325,220	314,957

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Recoverability of the existing customers is reviewed by the Group regularly. As at December 31, 2011, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$2,731,000 (2010: HK\$2,628,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is over 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS — continued

	2011 HK\$'000	2010 HK\$'000
Aged analysis of trade receivables:		
Over 90 days	2,731	2,628

22. DEPOSITS RECEIVED ON SALES OF PROPERTIES AND OTHER PAYABLES AND ACCRUALS

	2011 HK\$'000	2010 HK\$'000
Deposits received on sales of properties	1,706,686	2,321,316
Deposits received on sales of properties of which:		
— expected to be realized within twelve months	1,706,686	1,246,129
— expected to be realized over twelve months	—	1,075,187
	1,706,686	2,321,316
Other payables and accruals:		
Accruals for construction costs	576,456	434,778
Other payables and accruals	111,982	153,434
	688,438	588,212

23. AMOUNT DUE TO/LOAN FROM A SHAREHOLDER

Amount due to a shareholder, Mr. Wong, was non-trade in nature, unsecured, interest-free and repayable on demand. In respect of the outstanding amount, an aggregate amount of HK\$1,045,662,000 has been repaid to the shareholder on January 4, 2012 and January 5, 2012.

Based on the agreement entered between Mr. Wong and the Company on December 31, 2011, a loan of HK\$350,000,000 is provided to the Group by Mr. Wong, which is interest-free, unsecured and repayable after one year from the end of reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. BANK LOANS, SECURED

	2011 HK\$'000	2010 HK\$'000
Carrying amounts of the variable-rate bank loans repayable based on contractual term*:		
Within one year	988,583	683,321
More than one year, but not exceeding two years	2,612,068	888,770
More than two years, but not exceeding five years	104,574	2,127,880
	3,705,225	3,699,971
Less: Amount due within one year shown under current liabilities	(988,583)	(683,321)
Amount shown under non-current liabilities	2,716,642	3,016,650

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's borrowings that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2011 HK\$'000	2010 HK\$'000
USD (Note)	1,382,940	1,536,600

Note: As at December 31, 2011, the borrowings were secured by the share of certain subsidiaries of the Company in the PRC.

The interest rates of the Group's variable-rate borrowings are based on base rate fixed by the People's Bank of China ("PBOC") or London InterBank Offered Rates ("LIBOR") plus a premium. Details are as follows:

	2011 HK\$'000	2010 HK\$'000
Base rate fixed by PBOC plus a premium:		
Carrying amounts repayable:		
Within one year	681,263	529,661
More than one year, but not exceeding two years	1,536,448	581,450
More than two years, but not exceeding five years	104,574	1,052,260
LIBOR plus a premium:		
Carrying amounts repayable:		
Within one year	307,320	153,660
More than one year, but not exceeding two years	1,075,620	307,320
More than two years, but not exceeding five years	—	1,075,620

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans are ranged from 4.80% to 7.98% (2010: 4.80% to 7.02%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. FIXED RATE SENIOR NOTES

On April 27, 2007, the Company issued approximately US\$300 million (approximately HK\$2,340,000,000) in aggregate principal amount of the fixed rate senior notes which contain two components, liability and early redemption options.

The notes bear interest at the fixed rate of 9.125% per annum. The interest charged for the year is calculated by applying an effective interest rate of approximately 10.85% (2010: 10.85%) per annum. Interest on the notes is payable on May 4 and November 4 of each year. The notes will mature on May 4, 2014. The notes are guaranteed by certain of the Company's subsidiaries other than those established under the laws of the PRC.

At any time before May 4, 2011, the Company may redeem the notes, in whole or in part, at a redemption price equal to 100% of their principal amount plus a premium and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to May 4, 2011, the Company may redeem up to 35% of the principal amount of the notes using net cash proceeds from certain equity offerings at a redemption price of 109.125% of the principal amount of the notes plus accrued and unpaid interest, if any, to the redemption date.

On or after May 4, 2011, the Company may, at its option, redeem all or part of the notes at the redemption prices equals to the percentage of the principal amount set forth below plus accrued and unpaid interest to the redemption date if redeemed during the 12-month period commencing on May 4 of the years indicated below:

12-month period commencing in the year	Percentage
2011	104.56250%
2012	102.28125%
2013 and thereafter	100.00000%

The directors of the Company consider that the fair values of the redemption options at the date of issuance of the notes and at December 31, 2011 and 2010 are insignificant.

During the year ended December 31, 2010, the Group repurchased fixed rate senior notes with the carrying amount of US\$197,395,000 (approximately HK\$1,539,681,000) at the market price, with the direct attributable cost of approximately HK\$21,863,000. The net gain of the repurchase was approximately HK\$35,875,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognized and movements thereon during the current and prior years:

	Fair value adjustment of investment properties HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At January 1, 2010	8,076,179	66,804	8,142,983
Exchange adjustments	342,347	5,108	347,455
Charge (credit) to profit or loss (note 10)	1,473,625	(5,027)	1,468,598
At December 31, 2010	9,892,151	66,885	9,959,036
Exchange adjustments	392,738	5,434	398,172
Charge to profit or loss (note 10)	596,307	—	596,307
At December 31, 2011	10,881,196	72,319	10,953,515

Other temporary differences mainly represent the temporary differences arising from the construction costs capitalized in investment properties under construction, properties under development for sales and properties held for sales which were deductible for tax purpose in the year those costs incurred.

As at December 31, 2010, the Group had estimated unused tax losses of HK\$116,880,000 available for offset against future profits and the unused tax losses would expire in 2015. No deferred tax asset has been recognized as at December 31, 2010 due to the unpredictability of future profit streams. There were no estimated unused tax losses as at December 31, 2011.

The Group had no significant unprovided deferred tax during the two years ended December 31, 2011 and 2010 and at the end of the reporting periods.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately HK\$17,034,153,000 (2010: HK\$14,889,051,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.1 each		
Authorized:		
At January 1, 2010, December 31, 2010 and December 31, 2011	5,000,000,000	500,000
Issued and fully paid:		
At January 1, 2010, December 31, 2010 and December 31, 2011	1,809,077,000	180,907

None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during the year.

28. CONTINGENT LIABILITIES

At the end of the reporting period, the contingent liabilities of the Group were as follows:

	2011 HK\$'000	2010 HK\$'000
Guarantees given to banks in connection with credit facilities granted to the purchasers of the Group's properties (Notes)	1,917,608	1,745,712

Notes:

- (a) The guarantees were given to banks with respect to loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the delivery to the purchasers and completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. In the opinion of the directors, the fair value of the financial guarantee contracts is not significant. Deposits received on sales of properties prior to the date of revenue recognition are classified as current liabilities in the consolidated statement of financial position.
- (b) The guarantees were secured by the Group's pledged bank deposits of approximately HK\$1,268,000 (2010: HK\$3,557,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. OTHER COMMITMENTS

	2011 HK\$'000	2010 HK\$'000
Construction commitment contracted for but not provided	758,962	651,895

30. OPERATING LEASE COMMITMENTS

As lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2011 HK\$'000	2010 HK\$'000
Within one year	14,049	17,067
In the second to fifth year inclusive	9,801	23,676
Over fifth year	—	104
	23,850	40,847

Around 40% (2010: 30%) of the Group's investment properties in Shanghai, namely, Shanghai Concord City Phase I is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants. For the Group's marketing strategy, upon the completion of Shanghai Concord City Phase II north portion ("Phase II North Portion"), the Group will then recruit their target tenants for both Phase I and Phase II North Portion. The construction of Phase II North Portion is anticipated to be completed in the second half of 2012. The properties generated rental yields of average 0.68% (2010: 0.85%) for the year ended December 31, 2011. Leased properties have committed tenants from 1 to 5 (2010: 1 to 6) years.

As lessee

Minimum lease payments paid under operating leases during the year:

	2011 HK\$'000	2010 HK\$'000
Premises	3,735	3,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. OPERATING LEASE COMMITMENTS — continued

As lessee — continued

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 HK\$'000	2010 HK\$'000
Within one year	4,113	2,022
In the second to fifth year inclusive	6,511	—
	10,624	2,022

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and are fixed for an average of 3 (2010: 3) years.

31. RETIREMENT BENEFITS PLANS

The Group operates a MPF Scheme under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made by both the Group and the employees based on 5% of the employees' salaries (capped at HK\$20,000) and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The total contributions incurred in this connection for the year was approximately HK\$4,269,000 (2010: HK\$4,059,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was conditionally adopted pursuant to a resolution passed on February 5, 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Scheme will expire on February 5, 2017.

Under the Scheme, the board of directors of the Company may grant options to directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme is not permitted to exceed 180,000,000 shares, being 10% of the shares of the Company in issue as at the date on which the shares of the Company are listed on the Stock Exchange, which can be refreshed according to the Scheme. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the Scheme shall not exceed 30% of the issued share capital of the Company from time to time.

The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders in accordance with the Scheme. Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the shares in the Company issued and to be issued upon exercise of all options to such person in the 12-month period up to and including the date of grant in excess of 0.1% of the shares of the Company in issue and with a value (based on the closing price of the shares of the Company at the offer date of each offer) in excess of HK\$5,000,000, such grant of options must be approved in advance by the Company's shareholders in accordance with the Scheme.

An option may be exercised at any time during the period to be determined and notified by the directors to the grantee and in the absence of such determination, from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses and ten years from the date of offer of that option. A consideration of HK\$1 is payable upon acceptance of the offer.

The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the share; the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

Pursuant to the announcement dated January 17, 2011 ("Grant Date"), 20,000,000 options (the "Options") to subscribe for the Company's ordinary shares of HK\$0.10 each (the "Shares") with the exercise price of HK\$2.67 each were granted to certain eligible participants (the "Grantees"). The Grantees are consultants which are responsible for the investor relations of the Group. None of the Grantees is a director, chief executive or substantial shareholder of the Company, or any of their respective associates. The option is exercisable from January 17, 2013 to March 22, 2013 ("Exercise Period"). The closing price of the Company's Shares at Grant Date was HK\$2.64.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. SHARE OPTION SCHEME — continued

In the opinion of the directors of the Company, these share options were granted to the consultants for rendering consultancy services in respect of seeking potential investors to acquire a certain sum of the Company's share on or before January 16, 2013 ("Target"). The directors of the Company believe that the strategy to issue share options in return of consultancy services can bring benefits to the Group, without damaging the Group's operating cash flows and liquidity.

The exercise of the share options shall be conditional upon the Target being achieved within the period from January 17, 2011 to January 16, 2013. When the above Target is achieved, the share options will become exercisable within the Exercise Period.

Management determines that the fair value of the services received are amounting to approximately HK\$15,850,000, which is expensed on a straight-line basis over the vesting period, with a corresponding increase in share option reserve. The Group would record an expense based on the fair value of services received and would not be required to determine the fair value of the share options granted to the Grantees since the fair value of the services could be reliably measured.

During the year ended December 31, 2011, share-based payment expenses of approximately HK\$7,567,000 (2010: Nil) is recognized in the profit or loss.

The following table discloses movements of the Company's share options held by the Grantees during the year.

	2011
Outstanding at the beginning of the year	—
Granted during the year	20,000,000
Outstanding at the end of the year	20,000,000
Exercisable at the end of the year	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions during the year with the Pacific Concord Holding Limited ("PCH"):

Nature of transactions

	2011 HK\$'000	2010 HK\$'000
Office premises expenses (Note)	43	42

Note: On July 22, 2011, a tenancy agreement (the "Tenancy Agreement") for the use of the principal place of business of the Company in Hong Kong was entered into between the landlord, a subsidiary of PCH, of which ultimate shareholder is Mr. Wong, and the Group. The Tenancy Agreement is effective from August 1, 2011 to July 31, 2014.

On the same date, a sharing agreement was entered into between a subsidiary of PCH and the Group which both parties agreed that the principal office will be divided into two equal halves and each party will be entitled to occupy, use and possess half of the principal office. The rental and the electricity fee, fixed line telephone charge and other charges will be shared equally by the parties.

Compensation of key management personnel

The directors of the Company considered that the directors are the key management of the Group. The remuneration of key management personnel of the Group during the year was as follows:

	2011 HK\$'000	2010 HK\$'000
Short-term benefits	1,534	1,530

The remuneration of directors is determined by the remuneration committee with reference to the involvement and the business performance of the directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. LIST OF SUBSIDIARIES

Details of the Company's principal subsidiaries as at December 31, 2011 and 2010 are as follows:

Name of the company	Country of establishment	Equity interest attributable to the Group as at December 31,		Issued and fully paid registered and paid-up capital as at December 31, 2011 and 2010	Principal activities
		2011	2010		
Jingan Concord [#]	PRC	100%	100%	US\$68,000,000	Property development and investment
Minhang Concord [#]	PRC	100%	100%	US\$99,600,000	Property development and investment
Property Management Co. ^{##}	PRC	100%	100%	RMB500,000	Property management service
Chongqing Ace Blossom Real Estate Co., Ltd. [#]	PRC	100%	100%	US\$50,000,000	Property development and investment
Chongqing Mid-Levels No. 1 Real Estate Co., Ltd. [#]	PRC	100%	100%	US\$50,000,000	Property development and investment
Chongqing Peak No. 1 Real Estate Co., Ltd. [#]	PRC	100%	100%	US\$50,000,000	Property development and investment
Chongqing Riverside Real Estate Co., Ltd. [#]	PRC	100%	100%	US\$50,000,000	Property development and investment
Chongqing Yangtze-Jialing River Real Estate Co., Ltd. [#]	PRC	100%	100%	US\$50,000,000	Property development and investment
Chongqing Zhengtian Investment Ltd. ^{***}	PRC	100%	100%	RMB51,000,000	Property development and investment

[#] Wholly foreign owned enterprises registered in the PRC.

^{##} A limited liability company registered in the PRC.

^{*} English name is for identification purpose only.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. EVENT AFTER THE REPORTING PERIOD

On January 27, 2012, the Company and Hillwealth Holdings Limited (the “Subscriber”), a company incorporated in the British Virgin Islands and wholly owned by Mr. Wong, entered into a conditional subscription agreement pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for a convertible note of HK\$500,000,000 in cash. The convertible note is interest bearing at 5% per annum and matures on the fourth anniversary of the issue date. The conversion price of the convertible note is HK\$2.42 per share. The net proceeds from the issue of the convertible note of approximately HK\$499,000,000 will be used for general working capital of the Group.

On February 21, 2012, the Company and the Subscriber entered into a supplemental agreement to extend the maturity date of the convertible note to sixth anniversary of the issue date. The issuance of the convertible note has been approved by the extraordinary general meeting of the Company held on March 16, 2012 and the subscription became unconditional. Details are set out in the Company’s circular dated February 29, 2012.

The convertible note contains the components of liability and embedded derivatives that are required to be separately accounted for in accordance with HKAS 39 “Financial instruments: Recognition and measurement”. The Company is in the process of determining the fair value of the components of convertible note and is not yet in a position to disclose the finalized financial effects.

FINANCIAL SUMMARY

RESULTS

	For the year ended December 31,				
	2007	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	2,002,964	1,746,024	1,286,850	207,262	983,785
Profit before taxation	9,633,923	824,457	12,776,718	6,033,037	2,625,899
Income tax expense	(1,699,969)	(210,016)	(3,167,397)	(1,555,205)	(626,460)
Profit for the year attributable to owners of the Company	7,933,954	614,441	9,609,321	4,477,832	1,999,439
Earnings per share					
Basic	HK\$4.51	HK\$0.33	HK\$5.31	HK\$2.48	HK\$1.11
Diluted	N/A	N/A	N/A	N/A	HK\$1.11

ASSETS AND LIABILITIES

	As at December 31,				
	2007	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	28,326,360	29,200,105	42,416,016	52,475,396	58,067,189
Total liabilities	(10,884,310)	(10,344,584)	(13,880,024)	(18,189,376)	(20,332,421)
	17,442,050	18,855,521	28,535,992	34,286,020	37,734,768
Equity attributable to owners of the Company	17,442,050	18,855,521	28,535,992	34,286,020	37,734,768

PARTICULARS OF MAJOR PROPERTIES

At December 31, 2011

Properties held by the Group as at December 31, 2011 are as follows:

Location	Type (Notes)	Gross floor area (Square meters)	Effective % held	Stage of completion	Anticipated completion
Portion of Phases 1, 2, 3, 4A and 4B of Shanghai Cannes No. 958 Xin Song Road Minhang District Shanghai The PRC	R & C	145,075	100	Completed	N/A
Commercial Street and Service Apartment located at No. 958 Xin Song Road Minhang District Shanghai The PRC	R & C	293,815	100	Under planning	2013–2015
Portion of Phase 1 of Concord City (Commercial Street, Hotel, Office Premise and Service Apartment) located at West of Nanjing Road Jing'an District Shanghai The PRC	R & C	51,545	100	Completed	N/A
The whole of Phase 2 of Concord City (Commercial Street, Hotel, Office Premise and Service Apartment) located at West of Nanjing Road Jing'an District Shanghai The PRC	R & C	338,074	100	Construction in progress	2012–2015
Huashan Building West Nanjing Road Jing'an District Shanghai The PRC	C	7,340	100	Renovation in progress	2013
Chongqing Global Twin Towers located at Nan Bin Road Chongqing The PRC	R & C	1,467,000	100	Under planning	2013–2016

PARTICULARS OF MAJOR PROPERTIES

At December 31, 2011

Location	Type (Notes)	Gross floor area (Square meters)	Effective % held	Stage of completion	Anticipated completion
Portion of Commercial Street Manhattan Luxury Residence and Beverly Hills located at Lijiu Road Chongqing The PRC	R & C	412,437	100	Construction in progress	2012–2013
Chongqing Manhattan City Villa Zone located at Lijiu Road Chongqing The PRC	R	520,086	100	Construction in progress	2012–2013
Chongqing Manhattan City European Type House Zone located at Lijiu Road Chongqing The PRC	R	477,995	100	Under planning	2013–2016
Chongqing Concord City located at Jiefangbei Chongqing The PRC	R & C	408,927	100	Under planning	2013–2015
Golden Tower located at Lijiu Road Chongqing The PRC	R & C	571,992	100	Under planning	2013–2015

Notes:

Types of properties: R — Residential, C — Commercial

N/A: Not applicable