HLCP 恒力商業地產

Annual Report 2011

HENGLI COMMERCIAL PROPERTIES (GROUP) LIMITED
恒 力 商 業 地 產 (集 團) 有 限 公 司
(Formerly known as Hengli Properties Development (Group) Limited 恒力房地產發展 (集團) 有限公司)
(Incorporated in Bermuda with limited liability)
Stock Code: 169

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Chang Wei *(Chairman and Managing Director)*
Ms. Chen Dongxue
Mr. Chan Chi Wang
Ms. Wu Weilan

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Hui Wai Man, Shirley

PRINCIPAL BANKERS

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

AUDITORS

KPMG

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre, 4th Floor
11 Bermudiana Road
Pembroke, HM 08 Bermuda

HONG KONG PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

169

Financial Highlights

	For year ended 31 December		
	2011	2010	
	HK$'000	HK$'000	Change %
Turnover	**–**	–	–
Gain on repurchase of convertible bond	**100,669**	–	+100.0
Valuation gain on investment properties under development	**215,701**	–	+100.0
Profit/(loss) from continuing operations	**131,719**	(117,462)	N/A
Net gain on disposal of subsidiaries	**62,460**	–	+100.0
Profit/(loss) attributable to equity shareholders of the Company	**185,411**	(102,911)	N/A
Earnings/(loss) per share (HK cents)			
From continuing operations and discontinued operations			
Basic	8.0	(6.2)	N/A
Diluted	3.1	N/A	N/A
From continuing operations			
Basic	5.3	(7.0)	N/A
Diluted	2.5	N/A	N/A
Cash and bank balances	**407,440**	554,472	-26.5
Total assets	**7,215,414**	5,703,955	+26.5
Total liabilities	**6,751,326**	5,293,577	+27.5
Equity attributable to equity shareholders of the Company	**370,237**	222,331	+66.5
Current ratio	**1.3**	1.9	
Gearing ratio	**83.3%**	84.6%	
Bank borrowings to equity ratio	**302.4%**	643.9%	

On behalf of the Board of Directors (the "Board") of Hengli Commercial Properties (Group) Limited (the "Company"), I am pleased to present the annual report of the Company together with its subsidiaries (the "Group") for the year ended 31 December 2011.

During 2011, having a strong determination to control inflation and rising property prices, the Chinese government continued enforcing tightening polices on the real estate market, including the implementation of the new "Eight Measures of the State Council". Policies aiming to restrict purchases and prices extended from first-tier cities to more than 40 cities throughout the country. To further curb the currency liquidity, the reserve requirement ratio was raised six times and the RMB benchmark deposit and loan interest rates of financial institutions were raised three times during the Year. The combined effects of various control policies led to the obvious decrease in transaction volume of properties during the second half of the 2011.

Most real estate developers have experienced severe challenges in 2011. The Group was impacted by such unfavorable business environment to some extent and the sales of residence slowed down in the second half of 2011. However, the Group actively responded to the market changes and promptly adjusted its marketing strategy. The Group launched a new commercial property project, namely "Hengli • Financial Center" (「恒力 • 金融中心」) and the office part of "Hengli City" (「恒力城」) for pre-sale in June 2011 and August 2011 respectively, posting a transaction amount of approximately RMB642.9 million. The Group achieved pre-sale of its residential units of approximately RMB289.1 million, office units of approximately RMB642.9 million and parking spaces of approximately RMB89.3 million in 2011. As at 31 December 2011, the Group's accumulated pre-sales of its properties amounted to approximately RMB2,018.2 million.

In regard to property lease, the Group entered into a long-term lease agreement with Beijing Wangfujing Department Store (Group) Co. Ltd. (北京王府井百貨(集團)股份有限公司) for the commercial podium of "Hengli City" (「恒力城」), which is expected to bring rental income of approximately RMB1,247 million to the Group in the next twenty years.

During the year, the Group continued to adhere to the development concept of building high-quality boutique commercial products, by integrating elements such as acquiring land use rights only in CBD areas, forming alliance with renowned business partners, cooperating with innovative architects and solid construction team etc, which has helped to create advanced, unique and functional buildings.

PROSPECTS

Although there is no apparent sign of easing the tightened policies on the real estate sector, since December 2011, the reserve requirement ratio has been reduced twice. In order to promote economic development and to increase domestic consumption, it is expected that liquidity would be further eased during 2012.

The Group will incessantly uphold its marketing-oriented strategy and will capture all promotion opportunities arising during the year by performing various marketing activities and using promotion tools to boost its sales.

The Group has observed that demand for commercial properties in the CBD area of Fuzhou is strong. Occupancy rate of offices is high with certain offices nearly fully rented. Notwithstanding the large demand, market supply was limited, especially the supply for high-quality commercial properties. With four commercial property projects in the CBD area of Fuzhou, of which two of them are almost ready for use, the Group will seize very opportunity to promote its performance in commercial property letting.

In respect of land bank, the Group will adhere to its strategy to only acquire lands in the central business area of a city and will continue to grasp desirable opportunities to increase its land bank.

To enhance the brand value of the Group, we will continue focus on the quality of our properties and will step up the promotion of the brand so as to implement the brand image of "恒力築經典，品質贏天下". We will also raise market recognition through improved property management and customer service quality.

In response to the existing financial and monetary policies, the Group will continue to adopt the principle of a cautious financial management policy to ensure its growth in a healthy manner. The Group will explore flexible funding channels to maintain its competitiveness and lower its gearing level as well as to provide a strong support for its sustainable developments.

The Group will adhere to its long-term development strategy to develop high-end, high yield commercial properties and commercial and residential complex in the second-tier and third-tier cities in the PRC. We will closely monitor the market and will take measures to respond promptly to market changes by adopting creative and innovative strategies. When opportunities present, the Group will try to expand its business to other cities in the Strait West Coast Economic Zone, such as Xiamen, Quanzhou, etc., in the coming year. With a solid foundation on property development and a proven track record on property development, the Group will strive to strengthen its position of a high-quality boutique commercial property developer.

ACKNOWLEDGEMENTS

Dear shareholders, although there are temporary difficulties and tests in the real estate sector, these will not shake our confidence in and focus on commercial properties. The Group will use its best endeavors to seize market opportunities and bring satisfactory growth to the Group through constant innovations and developments. On behalf of the Group, I would like to take this opportunity to express my sincere gratitude to our directors, management and our staffs, business partners, shareholders and all parties who have rendered their unfailing support and enormous contribution to the Group.

Chen Chang Wei
Chairman
28 March 2012

BUSINESS REVIEW

During 2011, the Chinese government continued to enforce and implement tightening policies on the real estate industry, for example, policies aiming to restrict purchases of residential properties and policies to further curb the currency liquidity by raising the reserve requirement ratio and raising the RMB benchmark deposit and loan interest rates of financial institutions by the People's Bank of China. Most real estate developers have experienced severe challenges in 2011. The Group was impacted by such unfavorable business environment during 2011 in terms of sales. However, the Group actively responded to the market changes and promptly adjusted its marketing strategy. The Group launched a new commercial property project, namely "Hengli • Financial Center" (「恒力 • 金融中心」) and the office part of "Hengli City" (「恒力城」) for pre-sale in June 2011 and August 2011 respectively, posting a transaction amount of approximately RMB642.9 million. The Group achieved pre-sale of its residential units of approximately RMB289.1 million, office units of approximately RMB642.9 million and parking spaces of approximately RMB89.3 million in 2011. As at 31 December 2011, the Group's accumulated pre-sales of its properties amounted to approximately RMB2,018.2 million.

For the year ended 31 December 2011, the Group's profit attributable to equity shareholders of the Company was approximately HK$185.4 million. This was mainly due to i) recognition of valuation gain on investment properties under development of HK$215.7 million, ii) recognition of gain on disposal of subsidiaries of HK$62.5 million, iii) recognition of gain on repurchase of convertible bond of HK$100.7 million, net of iv) finance costs and other operating expenses of HK$190.2 million.

On 18 January 2011, the Group entered into a long-term lease agreement with Beijing Wangfujing Department Store (Group) Co. Ltd. (北京王府井百貨(集團)股份有限公司), a large retail department store group listed on the Shanghai Stock Exchange, for the commercial podium of "Hengli City" (「恒力城」), which is expected to bring rental income of approximately RMB1,247 million to the Group in the next twenty years. To facilitate the business operation of the leasee, the Group would also spare 395 parking spaces for rental purpose.

On 15 March 2011, the Group successfully bid for the land use right of a parcel of land with an area of approximately 42,125 square meters in Fuzhou. The land is located in Gulou District of Fuzhou city, at north of the Bei Er Huan Road (北二環路) and east of Fu Fei Road (福飛路). The Group formed a joint venture with Yonghui Superstores Co. Ltd (永輝超市股份有限公司), which is listed on the Shanghai Stock Exchange, to develop the land into high-end commercial properties with residential building named "Hengli • Bona Plaza" (「恒力 • 博納廣場」) with an estimated gross floor area of 274,091 sq.m.

The Group recognised that, while expanding its scale of business operation, its property management services must keep pace with the latest standards and meet the diversified needs of different householders. For this purpose, in April 2011, the Group formed a joint venture with a subsidiary of Savills Group, a renowned global real estate service provider, to introduce high-end property management services with international standards so as to provide better quality property management services to the householders, to enhance the value of the properties and the Group's brand value.

Given the increasing demand for high-end commercial properties in the second-tier and third-tier cities in the PRC, the long-term development strategy of the Group has been adjusted to develop high-end, high-yield commercial properties and commercial and residential complex. In May 2011, the Company disposed of the entire equity interest in Right Strong Holdings Limited, the Company's wholly owned subsidiary, and hence projects in Zhejiang Province, which were mostly middle or low-end residential and commercial properties. The disposal resulted in a gain of approximately HK$62.5 million. Through the disposal, the Board believes that the Company will be able to allocate its resources more effectively in order to focus on the development of its existing high-end property projects in the Fujian Province and to achieve its long term strategy. As at 31 December 2011, the Group owned four projects in Fuzhou, namely "Hengli City" (「恒力城」), "Hengli • Financial Center" (「恒力 • 金融中心」), "Hengli • Prosperity Center" (「恒力 • 創富中心」) and "Hengli • Bona Plaza" (「恒力 • 博納廣場」), which were all located in the central financial district of Fuzhou. "Hengli City" (「恒力城」) is a residential, office and retail complex with a total gross floor area of approximately 241,600 square meters, involving one block of 40-storey office building and three blocks of 46-storey residential buildings, commonly erected on top of a 8-storey commercial podium accommodating clubhouse facilities and retail spaces as well as three levels of basement car parking spaces. "Hengli • Financial Center" (「恒力 • 金融中心」) and "Hengli • Prosperity Center" (「恒力 • 創富中心」) are being developed into high-end commercial properties, with estimated gross floor area of approximately 50,645 and 56,757 sq.m. respectively. "Hengli • Bona Plaza" (「恒力 • 博納廣場」) will be developed into high-end commercial properties with residential building with an estimated gross floor area of 274,091 sq.m. Given the proximity of the aforementioned property projects in Fuzhou, the Company is expected to enjoy synergy effects and economies of scale in managing and developing those property projects.

With the development of its projects, the Group has paid more attention to its company motto and brand image of "恒力築經典，品質贏天下". The Group focused on the quality of its properties to reflect a high-quality product offering premium brand image. In addition, the Group cooperated with solid and renowned business partners during the 2011 to bring high-quality, high-value products and services to its customers.

FINANCIAL REVIEW

Net assets

As at 31 December 2011, the Group recorded total assets and total liabilities of approximately HK$7,215.4 million and HK$6,751.3 million respectively. The Group's net assets value per consolidated statement of financial position as at 31 December 2011 increased by approximately HK$53.7 million to approximately HK$464.1 million as compared to approximately HK$410.4 million as at 31 December 2010.

Liquidity and financial ratios

The Group had total cash and bank balances of approximately HK$407.4 million as at 31 December 2011 as compared with HK$554.5 million as at 31 December 2010. As at 31 December 2011, the current ratio was 1.3 as compared with 1.9 as at 31 December 2010. The gearing ratio was 83.3% as at 31 December 2011 as compared with 84.6% as at 31 December 2010. The bank borrowings to equity attributable to equity shareholders of the Company ratio was 302.4% as at 31 December 2011 as compared to 643.9% as at 31 December 2010.

Borrowings

The Group had interest-bearing bank borrowings of approximately HK$1,119.4 million as at 31 December 2011 (31 December 2010: HK$1,431.7 million), representing a decrease of approximately 21.8% over the amount as at 31 December 2010. Borrowings were denominated in Renminbi ("RMB") and Hong Kong dollar ("HK$"). Approximately 69.8% of the borrowings is repayable within one year of which 40.1% is secured by cash deposit. The rest representing the bank loans repayable after one year of HK$338.1 million. The Company is confident in meeting its loan repayment obligations with its cash and bank deposits and proceeds from pre-sales and sale of its projects.

The Group had aggregate net carrying amount of convertible bonds of approximately HK$1,203.4 million (principal amount of approximately HK$1,916.0 million) as at 31 December 2011.

Foreign currency exposure

Other than financing activities of borrowings denominated in HK$, the Group conducts its business almost exclusively in RMB. Thus the Group is exposed to foreign exchange risk arising from the exposure of RMB against HK$. The Directors do not anticipate any significant foreign exchange loss as a result of changes in exchange rate between RMB and HK$ in the foreseeable future. The Directors also consider that there will be sufficient cash resources denominated in both RMB and HK$ for repayment of its borrowings. The Group did not have hedging instrument outstanding as at 31 December 2011.

PLEDGE OF ASSETS

As at 31 December 2011, the Group pledged certain of its property, plant and equipment, prepaid lease payments, properties under development, investment properties under development and restricted bank deposits to financial institutions to secure the loans of approximately HK$1,119.4 million (2010: HK$1,431.7 million) granted by these financial institutions.

The aggregate carrying value of the property, plant and equipment, prepaid lease payments, properties under development, investment properties under development, and restricted bank deposits that were pledged as at 31 December 2011 amounted to approximately HK$2.0 million, HK$25.0 million, HK$1,142.2 million, HK$1,446.7 million and HK$349.4 million (31 December 2010: HK$1.6 million, HK$28.6 million, HK$3,648.9, HK$nil million and HK$344.6 million) respectively.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group provided guarantees of approximately HK$528.9 million (2010: HK$392.7 million) to banks in favor of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group's developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificates of the respective properties by the banks from the customers as a pledge for security to the mortgage loan granted. As at 31 December 2011, no provision for the Group's obligation under these guarantee contracts has been made as the directors considered that it was not probable that the repayment of these loans would be in default.

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

MATERIAL ACQUISITION AND DISPOSAL

On 3 March 2011 the Company entered into a conditional agreement to dispose of the entire equity interest in Right Strong Holdings Limited, the Company's wholly owned subsidiary. The transaction was completed on 24 May 2011 with a consideration of HK$150.7 million and resulted in a gain of HK$62.5 million.

CAPITAL STRUCTURE

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

During the year ended 31 December 2011, 91,951,000 ordinary shares of HK$0.10 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of HK$0.334 per share.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group employed approximately 114 full time staffs in the PRC and Hong Kong.

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

OUTLOOK

Looking into 2012, the world's overall economic growth may slowdown further with the worsening of the debt crisis in Europe and the adverse impact from the downgrade of the US sovereign credit rating. China maintained a stable growth in its economy, but inflationary pressures were still notable. Although there is no apparent sign of easing the tightened policies on the real estate sector, since December 2011, the reserve requirement ratio has been reduced twice. In order to promote economic development and to increase domestic consumption, it is expected that liquidity would be further eased during 2012. The Group believes that once the liquidity loosens or market regains its confidence, the sales of commercial properties will quickly return, driven by the demand for commercial properties in the urban areas.

Although the market liquidity remains tight, the Group anticipates that the situation will improve within this year. The Group will prudently expand its funding channels, including seizing opportunity to conduct equity financing activities, and select the most appropriate and beneficial financing arrangements so as to provide strong financial resources and supports for the sustainable development of the Group.

Looking forward, growth of the Chinese economy will still be one of the fastest globally, coupled with the long-term policy of urbanization. The Group remains optimistic about the prospects of China's real estate sector. The Group will continue to strategically select and develop commercial property projects that are in line with the Group's long-term development strategy to further penetrate into other second-tier and third-tier cities in the PRC. The Group is committed to offering high-quality, high yield commercial property products to its customers, contributing to the urbanization of the country, creating values for the society and providing satisfactory returns to its shareholders.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Chen Chang Wei ("Mr. Chen"), aged 49, joined the Group on 22 January 2008. Mr. Chen is currently the Chairman and Managing Director of the Company. He is responsible for the overall strategic planning and formulation of the corporate policies of the Group. Mr. Chen graduated from Department of Civil Engineering in Huaqiao University, the People's Republic of China (the "PRC"). He holds a Bachelor Degree of Civil Engineering. Mr. Chen has over 20 years of experience in investment, industrial and commercial sectors and real estate development. Mr. Chen is the brother of Ms. Chen Dongxue ("Ms. Chen") and the father of Mr. Chan Chi Wang ("Mr. Chan"). Ms. Chen and Mr. Chan are executive directors of the Company.

Ms. Chen Dongxue ("Ms. Chen"), aged 41, joined the Group on 15 February 2008. She is mainly responsible for the management of the Group's PRC operations. Ms. Chen graduated from Department of International Finance and Financial Economics in Xiamen University, the PRC. She holds a Bachelor Degree of Economics. Ms. Chen has over 15 years of experience in investment, industrial and commercial sectors and real estate development. Ms. Chen is the sister of Mr. Chen, the Chairman and Managing Director of the Company, and the aunt of Mr. Chan, an executive director of the Company.

Mr. Chan Chi Wang, aged 26, joined the Group in July 2009. Mr. Chan is mainly responsible for the sales, marketing management and design of the Group's projects. Mr. Chan is experienced in property development, property investment and property sales. Mr. Chan graduated from York University, Ontario, Canada. He holds a Bachelor Degree of Economics with Honors. Mr. Chan is the son of Mr. Chen, the Chairman and Managing Director of the Company, and the nephew of Ms. Chen, an executive director of the Company.

Ms. Wu Weilan, Martine, aged 34, joined the Group in August 2009. She is also the Company's chief financial officer and is responsible for the financial management of the Group. Ms. Wu holds a Master of Business Administration degree from Paris Graduate School of Management, France and a Bachelor of Law degree from Guangdong University of Foreign Studies, PRC. Ms. Wu was qualified as Certified Public Accountant in the USA in 2009. Prior to joining the Group, Ms. Wu has over 8 years' experience in public accounting.

Independent Non-executive Directors

Ms. Lin Wen Feng, aged 43, was appointed as an Independent Non-executive Director on 15 October 2007. Ms. Lin graduated from the Xiamen University with a Master Degree of Laws. She passed the National Judicial Examination in People's Republic of China in 1992 and has 15 years' practicing experience as a solicitor, involving in corporate, finance and conveyancing sections.

Mr. Ma Ving Lung, aged 42, was appointed as an Independent Non-executive Director on 30 November 2007. Mr. Ma graduated from York University, Ontario, Canada. He holds a Bachelor Degree of Accountancy with Honors and was qualified as an accountant in USA in 2000. Mr. Ma became an associate member of Hong Kong Institute of Certified Public Accountant in 2000. He has worked for a number of listed companies and has extensive experience in initial public offerings.

Mr. Yip King Keung, Pony, aged 42, was appointed as an Independent Non-executive Director on 14 January 2008. Mr. Yip holds a Bachelor Degree of Business Administration (Honors) from York University, Ontario, Canada. Mr. Yip has more than 10 years experience in the field of business management and property investment.

SENIOR MANAGEMENT

Ms. Hui Wai Man, Shirley, aged 44, joined the Group in December 2000. She is responsible for the company secretarial affairs of the Group. Ms. Hui has over 20 years of professional experience in public accounting and corporate finance. She is a fellow member of The Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She is also a member of the Society of Chinese Accountants and Auditors and Hong Kong Securities Institute.

The directors present the annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

The principal activities of the Group's subsidiaries are set out in note 18 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 30.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2011.

SEGMENT INFORMATION

The Group's revenue and results analyzed by segments are set out in note 3 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 107. This summary does not form part of the audited financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in note 15 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in notes 31 to the financial statements.

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

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out on note 31 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. Chen Chang Wei *(Chairman and Managing Director)*
Ms. Chen Dongxue
Mr. Chan Chi Wang *(Appointed on 1 July 2011)*
Ms. Wu Weilan *(Appointed on 1 July 2011)*
Ms. Chan Sheung Ni *(Retired on 22 June 2011)*

Independent non-executive directors:

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

In accordance with clause 99 of the Bye-Laws of the Company, Ms. Li Wen Feng and Mr. Ma Ving Lung will retire and, being eligible, will offer themselves for re-election at the Annual General Meeting.

In accordance with clause 102(B) of the Bye-Laws of the Company, Mr. Chan Chi Wang and Ms. Wu Weilan will retire and, being eligible, will offer themselves for re-election at the Annual General Meeting.

Mr. Chen Chang Wei, Ms. Chen Dongxue, Mr. Chan Chi Wang and Ms. Wu Weilan have a service contracts with the Company for a fixed term of 2 years, which may be terminated, by either side, on 6 months' notice.

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

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2011, the interests of the directors and their associates in the ordinary shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

DIRECTORS' INTERESTS IN SECURITIES *(Continued)*

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

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Chen Chang Wei	Beneficial owner and held by controlled corporation (1)	1,582,163,507	67.93%
	Interest of spouse (2)	12,346,000	0.53%
		1,594,509,507	68.46%
Ms. Chen Dongxue	Beneficial owner (3)	43,774,000	1.88%

(1) As at 31 December 2011, Mr. Chen Chang Wei ("Mr. Chen") was deemed to be interested in 1,594,509,507 shares of the Company, of which (1) 14,894,000 shares were directly held by Mr. Chen, (2) 172,000,000 shares were held in trust for him by Ever Good Luck Limited (a company incorporated in the British Virgin Islands ("BVI") of which the entire issued share capital is beneficially owned by Mr. Chen), (3) 1,395,269,507 shares were beneficially owned by Ever Good Luck Limited, and (4) 12,346,000 shares were held by his spouse, Ms. Chan Sheung Ni, as beneficial owner.

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

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

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

There was no share option scheme during the year ended 31 December 2011.

There were no new shares options granted during the year and outstanding as of 31 December 2011.

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

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2011, the following persons or corporations (other than a Director or Chief Executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and so far as is known to any Director or Chief Executive of the Company.

Name	Long position/ Short position	Capacity/ Nature of interest	Number of shares held	Approximate percentage of shareholding
Ever Good Luck Limited	Long	Beneficial interest (1)	1,395,269,507	59.91%
Glories Structure Limited	Long	Beneficial interest (2)	170,000,000	7.30%

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

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

Save as disclosed above, as at 31 December 2011, no person, other than the director and his associated corporations stated under the paragraph headed "Directors' interests in securities" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of SFO.

CONNECTED TRANSACTIONS

Connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are disclosed in note 35 to the financial statement.

DIRECTORS' INTERESTS IN CONTRACTS

The Group has entered into five loan agreements with Mr. Chen and a company controlled by Mr. Chen during the year ended 31 December 2011.

Under these loan agreements, the loans from Mr. Chen, amounted to $24,000,000 that bear interest ranging from 18% to 20% per annum, are unsecured and repayable six months after the date of the respective drawdowns. The loans from an entity controlled by Mr. Chen, amounted to $353,479,000 that bear interest ranging from 8% to 20% per annum, are unsecured and repayable six months after the date of the respective drawdowns.

DIRECTORS' INTERESTS IN CONTRACTS *(Continued)*

During the year, the Company entered into a sale and purchase agreement with Mr. Chen, pursuant to which Mr. Chen agreed to sell, and the Company agreed to purchase, convertible bond in the principal amount of $356,000,000 by way of the setting off of the loan to Mr. Chen of approximately RMB289,330,000 (equivalent to approximately $355,726,000) and the remaining balance in cash.

Other than as disclosed above, no other contract of significance, to which the Company or any of its holding companies or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

EMOLUMENT POLICY

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 16.4% of the Group's total sales in 2011 while the sales attributable to the Group's largest customer was approximately 4.0% of the Group's total sales in 2011.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 85.4% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 63.2% of the Group's total purchases.

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

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2011 except for deviations in (i) the independent non-executive directors of the Company are not appointed for a specific term and (ii) the role of chairman and chief executive officer are performed by the same individual.

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

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

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

AUDIT COMMITTEE

The consolidated financial statements for the year ended 31 December 2011 has been reviewed by the Audit Committee. Information on the work of Audit Committee and its composition are set out in Corporate Governance Report on pages 24 to 25 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2011.

DONATIONS

During the year, the Group has made charitable donations of HK$72,420 (2010: HK$253,858).

AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

CHEN CHANG WEI
Chairman

Hong Kong, 28 March 2012

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2011, except for deviations from Code Provision A.4.1 (tenure of non-executive directors) and Code A.2.1 (Separate of roles of chairman and chief executive officer) as explained in the relevant paragraphs in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard as set out in Model Code during the year ended 31 December 2011.

THE BOARD OF DIRECTORS

The Board currently comprises seven Directors, including four Executive Directors and three Independent Non-executive Directors. All three Non-Executive Directors are Independent Non-Executive Directors which represent over one-third of the Board. And its composition of the Board during the year ended 31 December 2011 and up to the date of this report is set out as follows:

Executive Directors:
Mr. Chen Chang Wei *(Chairman and Managing Director)*
Ms. Chen Dongxue
Mr. Chan Chi Wang
Ms. Wu Weilan

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

All Directors have distinguished themselves in their field of expertise and have exhibited high standards of personal and professional ethics and integrity. The brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section on pages 11 to 12. Except for Ms. Chen Dongxue, being the sister of Mr. Chen Chang Wei, and Mr. Chan Chi Wang, being the son of Mr. Chen Chang Wei, there is no financial, business, or other material/relevant relationship amongst the Directors.

BOARD PRACTICE

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

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

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

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

	Number of Board meetings Attended/held
Executive Directors:	
Mr. Chen Chang Wei *(Chairman and Managing Director)*	10/13
Ms. Chen Dongxue	7/13
Mr. Chan Chi Wang	5/6
Ms. Wu Weilan	6/6
Ms. Chan Sheung Ni	3/6
INEDS:	
Ms. Lin Wen Feng	12/13
Mr. Ma Ving Lung	12/13
Mr. Yip King Keung, Pony	11/13

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

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

BOARD COMMITTEES

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

Remuneration Committee

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

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The major roles and functions of the Remuneration Committee are:

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

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

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

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

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

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

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

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

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

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

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The Remuneration Committee shall meet at least once a year. One committee meeting was held in 2011 to review and discuss the existing policy and structure for the remuneration of Directors, and the remuneration packages of both the Executive and Non-executive Directors. The attendance of each member is set out as follows:

Committee member	Number of Committee meeting attended/held
Mr. Yip King Keung, Pony *(Chairman)*	1/1
Mr. Chen Chang Wei	1/1
Ms. Chen Dongxue	1/1
Ms. Lin Wen Feng	1/1
Mr. Ma Ving Lung	1/1

Details of the Directors' remuneration are set out in note 8 to the financial statements.

Audit Committee

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

The major roles and functions of the Audit committee are:

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

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

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

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

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

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

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

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

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

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

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

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

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

The Audit Committee will meet at least twice each year. In 2011, the Audit Committee met two times considering the annual results of the Group for the financial year ended 31 December 2010 and the interim results of the Group for the 6 month ended 30th June 2011, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and reviewing the connected transactions of the Group. Attendance records of the Audit Committee members in 2011 are as follows:

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

Nomination Committee

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

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

The major roles and functions of the Nomination Committee are:

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

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

The Nomination Committee shall meet at least once a year. One committee meeting was held in 2011 to discuss the terms of appointment of Directors. The attendance of each member is set out as follows:

Committee member	Number of Committee meeting attended/held
Mr. Chen Chang Wei *(Chairman)*	1/1
Ms. Chen Dongxue	1/1
Ms. Lin Wen Feng	1/1
Mr. Ma Ving Lung	1/1
Mr. Yip King Keung, Pony	1/1

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

External Auditor's Remuneration

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

Services rendered for the Group	Fee paid/payable HK$'000
Audit services	941
Non-audit services	1,207

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal controls includes a defined management structure with limit authority, is designed to help the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provisions of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather that eliminate risks of failure in operational systems and achievement of the Group's objectives. The Board has conducted review of the system of internal control of the Group during the year ended 31 December 2011.

Directors' Training

To comply with the new Listing Rules which will become effective on 1 April 2012, all the directors of the Company will be required to provide records of training they receive for the next accounting period ended 31 December 2012 to the Company and disclose in the corporate governance report how each director, by name comply with the new rule I(i). Directors are encouraged to fill in the prescribed training record form distributed by the Company and reported their training for every six months for easy assessment. Code provision on directors' training can be satisfied in a number of ways, e.g. by attending in-house briefings, by giving talks, by attending training relevant to the Company's business conducted by lawyers, or by reading material relevant to the director's duties and responsibilities.

Company Secretary's Training

With effect from 1 January 2012, the Company Secretary is required to have fifteen hours' professional training in a financial year. In this circumstance, the Company Secretary shall provide to the Company his/her training records for the forthcoming year.

COMMUNICATION WITH SHAREHOLDERS

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

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

CORPORATE GOVERNANCE ENHANCEMENT

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

KPMG

Hengli Commercial Properties (Group) Limited
(Formerly known as Hengli Properties Development (Group) Limited)
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Hengli Commercial Properties (Group) Limited (the "Company") (formerly known as Hengli Properties Development (Group) Limited) and its subsidiaries (together the "Group") set out on pages 30 to 106, which comprise the consolidated and company statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's 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.

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

28 March 2012

Consolidated income statement

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Continuing operations			
Turnover	3	–	–
Gain on repurchase of convertible bond	28	**100,669**	–
Valuation gain on investment properties under development		**215,701**	–
Other revenue and net income	4	**23,194**	18,990
Selling, administrative and other operating expenses		**(59,933)**	(32,810)
Profit/(loss) from operations		**279,631**	(13,820)
Finance costs	5(a)	**(130,286)**	(119,611)
Profit/(loss) before taxation	5	**149,345**	(133,431)
Income tax (expense)/credit	6(a)	**(17,626)**	15,969
Profit/(loss) from continuing operations		**131,719**	(117,462)
Discontinued operations	7		
Results of discontinued operations		**516**	37,682
Net gain on disposal of subsidiaries		**62,460**	–
Profit/(loss) for the year		**194,695**	(79,780)
Attributable to:			
Equity shareholders of the Company (from continuing operations: $123,559,000 (2010: loss of $117,343,000))		**185,411**	(102,911)
Non-controlling interests (from continuing operations: $8,160,000 (2010: loss of $118,000))		**9,284**	23,131
Profit/(loss) for the year		**194,695**	(79,780)
Earnings/(loss) per share (HK cents)	12		
From continuing operations and discontinued operations			
Basic		**8.0**	(6.2)
Diluted		**3.1**	N/A
From continuing operations			
Basic		**5.3**	(7.0)
Diluted		**2.5**	N/A

The notes on pages 37 to 106 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Profit/(loss) for the year		**194,695**	(79,780)
Other comprehensive income for the year (after tax adjustments):	11		
Exchange differences on translation of financial statements of subsidiaries in the mainland of the People's Republic of China (the "PRC")		**148,820**	108,533
Surplus on revaluation of property, plant and equipment		**260**	321
Exchange reserve realised on disposal of subsidiaries	7	**(6,027)**	—
		143,053	108,854
Total comprehensive income for the year		**337,748**	29,074
Attributable to:			
Equity shareholders of the Company		**324,300**	(2,602)
Non-controlling interests		**13,448**	31,676
Total comprehensive income for the year		**337,748**	29,074

The notes on pages 37 to 106 form part of these financial statements.

Consolidated statement of financial position

At 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Fixed assets			
— Property, plant and equipment	13	**4,420**	18,540
— Prepaid lease payments	13	**24,940**	28,622
— Investment properties under development	14	**1,683,501**	—
— Investment properties	15	**—**	101,771
		1,712,861	148,933
Goodwill	16	**105,531**	99,861
Available-for-sale investment	17	**—**	2,368
Deferred tax assets	30(b)	**—**	4,397
		1,818,392	255,559
Current assets			
Loan to a director	19	**—**	324,543
Properties under development	20	**3,846,822**	4,090,776
Properties held for sale		**—**	108,229
Deposits for land use right purchase		**695,010**	222,554
Trade and other receivables	21	**267,479**	93,086
Derivative financial instruments	28	**60,264**	—
Tax prepayments	30(a)	**120,007**	54,736
Restricted bank deposits	22	**349,423**	344,637
Cash at bank and in hand	23(a)	**58,017**	209,835
		5,397,022	5,448,396
Current liabilities			
Trade and other payables	24	**873,584**	374,261
Receipts in advance	25	**2,051,717**	1,082,012
Loans from related parties	35(b)	**377,479**	—
Loans from financial institutions	26	**781,373**	1,264,082
Current taxation	30(a)	**2,749**	80,082
		4,086,902	2,800,437
Net current assets		**1,310,120**	2,647,959
Total assets less current liabilities		**3,128,512**	2,903,518

Consolidated statement of financial position

At 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current liabilities			
Loans from financial institutions	26	**338,058**	167,584
Advance from lessee	27	**123,000**	—
Convertible bond	28	**1,203,381**	1,368,839
Deferred tax liabilities	30(b)	**999,985**	956,717
		2,664,424	2,493,140
NET ASSETS		**464,088**	410,378
CAPITAL AND RESERVES	31		
Share capital		**232,897**	111,851
Accumulated losses		**(297,644)**	(484,779)
Other reserves		**434,984**	595,259
Total equity attributable to equity shareholders of the Company		**370,237**	222,331
Non-controlling interests		**93,851**	188,047
TOTAL EQUITY		**464,088**	410,378

Approved and authorised for issue by the board of directors on 28 March 2012

Chen Chang Wei
Chairman

Wu Weilan
Executive Director

The notes on pages 37 to 106 form part of these financial statements.

Statement of financial position

At 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Investments in subsidiaries	18	**1,705,241**	1,705,241
Current assets			
Other receivables	21	**566,013**	442,812
Derivative financial instrument	28	**60,264**	—
Cash at bank and in hand	23(a)	**1,328**	6,763
		627,605	449,575
Current liabilities			
Other payables	24	**718,033**	331,571
Loans from related parties	35(b)	**24,000**	—
Loans from financial institutions	26	**50,000**	50,000
		792,033	381,571
Net current (liabilities)/assets		**(164,428)**	68,004
Total assets less current liabilities		**1,540,813**	1,773,245
Non-current liabilities			
Convertible bond	28	**1,203,381**	1,368,839
NET ASSETS		**337,432**	404,406
CAPITAL AND RESERVES	31		
Share capital		**232,897**	111,851
Reserves		**104,535**	292,555
TOTAL EQUITY		**337,432**	404,406

Approved and authorised for issue by the board of directors on 28 March 2012

Chen Chang Wei
Chairman

Wu Weilan
Executive Director

The notes on pages 37 to 106 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2011

(Expressed in Hong Kong Dollars)

		Attributable to equity shareholders of the Company												
	Note	Share capital $'000	Share premium $'000	Prepaid share reserve $'000	Capital reserve $'000	Special reserve $'000	Exchange reserve $'000	Property revaluation reserve $'000	Convertible bond equity reserve $'000	Convertible bond redemption reserve $'000	Accumulated losses $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
		31(b)	31(c)(i)	31(b)(i)	31(c)(ii)	31(c)(iii)	31(c)(iv)	13(b)	31(c)(v)	28				
Balance at 1 January 2010		111,851	196,965	–	3,038	44,144	4,537	1,471	136,770	–	(381,868)	116,908	159,292	276,200
Changes in equity for 2010:														
Profit for the year		–	–	–	–	–	–	–	–	–	(102,911)	(102,911)	23,131	(79,780)
Other comprehensive income	11	–	–	–	–	–	100,164	145	–	–	–	100,309	8,545	108,854
Total comprehensive income		–	–	–	–	–	100,164	145	–	–	(102,911)	(2,602)	31,676	29,074
Rights issue of shares	31(b)(i)	–	(3,826)	111,851	–	–	–	–	–	–	–	108,025	–	108,025
Dividends approved		–	–	–	–	–	–	–	–	–	–	–	(2,921)	(2,921)
Balance at 31 December 2010 and 1 January 2011		**111,851**	**193,139**	**111,851**	**3,038**	**44,144**	**104,701**	**1,616**	**136,770**	**–**	**(484,779)**	**222,331**	**188,047**	**410,378**
Changes in equity for 2011:														
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**185,411**	**185,411**	**9,284**	**194,695**
Other comprehensive income	11	**–**	**–**	**–**	**–**	**–**	**138,791**	**98**	**–**	**–**	**–**	**138,889**	**4,164**	**143,053**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**138,791**	**98**	**–**	**–**	**185,411**	**324,300**	**13,448**	**337,748**
Rights issue of shares	31(b)(i)	**111,851**	**–**	**(111,851)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Convertible bond exercised	28	**9,195**	**10,563**	**–**	**–**	**–**	**–**	**–**	**(1,789)**	**–**	**–**	**17,969**	**–**	**17,969**
Convertible bond redeemed	28	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(251,589)**	**–**	**(251,589)**	**–**	**(251,589)**
Recognition of redemption option	28	**–**	**–**	**–**	**60,264**	**–**	**–**	**–**	**–**	**–**	**–**	**60,264**	**–**	**60,264**
Arising from disposals of subsidiaries		**–**	**–**	**–**	**(3,038)**	**(10)**	**–**	**(1,714)**	**–**	**–**	**1,724**	**(3,038)**	**(107,644)**	**(110,682)**
Balance at 31 December 2011		**232,897**	**203,702**	**–**	**60,264**	**44,134**	**243,492**	**–**	**134,981**	**(251,589)**	**(297,644)**	**370,237**	**93,851**	**464,088**

The notes on pages 37 to 106 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Operating activities			
Cash generated from operations	23(b)	**99,878**	87,304
PRC tax paid		**(76,956)**	(87,356)
Net cash generated from/(used in) operating activities		**22,922**	(52)
Investing activities			
Payment for the purchase of property, plant and equipment		**(2,064)**	(58)
Payment for cost of construction of investment properties under development		**(116,509)**	—
Proceeds from sale of property, plant and equipment		**—**	261
Disposal of discontinued operations, net of cash disposed of	7	**(221,803)**	—
Proceeds from sale of available-for-sale investment		**2,368**	—
Dividends received from available-for-sale investment		**—**	478
Interest received		**9,267**	5,160
Decrease/(increase) in restricted bank deposits		**8,664**	(146,129)
Net cash used in investing activities		**(320,077)**	(140,288)
Financing activities			
Issue of shares net of directly attributable expenses	32(b)(ii)	**—**	108,025
Interest paid		**(75,721)**	(67,332)
Loans from related parties		**377,479**	—
Proceeds from new loans from financial institutions		**307,500**	306,806
Repayment of loans from financial institutions		**(546,221)**	(77,158)
Payment for the repurchase of convertible bond		**(45,274)**	—
Advance from lessee		**123,000**	—
Advances from non-controlling equity holders of subsidiaries		**—**	4,325
Repayment of promissory notes		**—**	(60,000)
Dividends paid to non-controlling equity holders of a subsidiary		**(3,836)**	(4,771)
Net cash generated from financing activities		**136,927**	209,895
Net (decrease)/increase in cash and cash equivalents		**(160,228)**	69,555
Cash and cash equivalents at 1 January		**209,835**	137,977
Effect of foreign exchange rate changes		**8,410**	2,303
Cash and cash equivalents at 31 December	23(a)	**58,017**	209,835

The notes on pages 37 to 106 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

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

— derivative financial instruments (see note 1(f));
— investment properties (see note 1(g)); and
— leasehold land and buildings (see note 1(h)).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Major sources of estimation uncertainty are discussed in note 2.

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

(c) Changes in accounting policies

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

— HKAS 24 (revised 2009), *Related party disclosure*
— Improvements to HKFRSs (2010)
— HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*

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

HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction.

The impacts of other developments are discussed below:

— HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

— Improvements to HKFRs (2010) omnibus standard introduce a number of amendments to the disclosure requirements in HKFR 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)), unless the investment is classified as held for sale.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(f) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Investment property

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

Investment properties and investment properties under development are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. If the fair value cannot be reliably determined, the investment properties under development will be measured at cost until such time as fair value can be determined or construction is completed. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed periodically by independent valuers.

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

Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(t)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(i).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Property, plant and equipment

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

(i) Leased assets

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

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Leased assets *(Continued)*

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

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(g)) or is held for development for sale (see note 1(k)).

(j) Impairment of assets

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

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

— significant financial difficulty of the debtor;

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

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

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

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

— For investments in subsidiaries, impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(j)(ii).

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

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

(ii) Impairment of other assets

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

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

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

— goodwill.

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

— Calculation of recoverable amount

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(j)(i) and (ii)).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Inventories

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

— Property under development for sale

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

— Completed property held for resale

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

(l) Trade and other receivables

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

(m) Convertible bond

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Convertible bond *(Continued)*

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

If the bond is converted, the convertible bond equity reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the share issued. If the bond is redeemed, the convertible bond equity reserve is transferred to convertible bond redemption reserve.

(n) Interest-bearing borrowings

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

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

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

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

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

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

  — the same taxable entity; or

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

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Financial guarantees issued *(Continued)*

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

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

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

(i) Sales of properties

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

(ii) Rental income from operating leases

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

(iii) Dividends

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

(iv) Interest income

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

(u) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined. The results of operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Discontinued operations

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

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

Where an operation is classified as discontinued, the following items are presented on the face of the consolidated income statement:

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

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

(x) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Related parties *(Continued)*

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(y) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

The Group makes estimates and assumptions concerning the future. Notes 16 and 32 contain information about the assumptions and their risk factors relating to goodwill impairment and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Investment property

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

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

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

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

(b) Income taxes

(i) PRC Corporate Income Tax

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

(b) Income taxes *(Continued)*

(ii) PRC Land Appreciation Taxes

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

(iii) Deferred tax assets and liabilities

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

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Group are property development and investment in the People's Republic of China (the "PRC"). On 24 May 2011, the Group completed a transaction to sell the entire interest in Right Strong Holdings and its subsidiaries (the "Disposal Group"). Subsequent to the disposal, all remaining projects are still in the stage of development as at 31 December 2011 and 2010. Accordingly, no turnover of continuing operations was recorded for the years ended 31 December 2011 and 2010. The financial information of the Disposal Group for the years ended 31 December 2011 and 2010 has been restated as discontinued operations (see also note 7).

(b) Segment reporting

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

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

Projects in Fujian Province: this segment engages in the development of residential and commercial properties as well as leasing of properties to earn rental income in Fujian Province.

Projects in Zhejiang Province: this segment engages in the development of residential and commercial properties as well as leasing of properties to earn rental income in Zhejiang Province. On 24 May 2011, the Group completed a transaction to sell the entire interest in the Disposal Group and hence this segment (see also note 7).

(c) Segment results, assets and liabilities

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

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

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

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

Upon completion of disposal of the Disposal Group, the Group has only one identifiable segment, being the Fujian province segment. In this connection, segment analysis of assets and liabilities at 31 December 2011 are not presented.

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

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

Continuing operations

	Projects in Fujian Province $'000	Projects in Zhejiang Province $'000 (Refer to note 7)	Total $'000
Year ended 31 December 2011			
Revenue from external customers	–	–	–
Reportable segment profit	**164,808**	**–**	**164,808**
Year ended 31 December 2010			
Revenue from external customers	–	–	–
Reportable segment loss	**(24,226)**	**–**	**(24,226)**

	2011 $'000	2010 $'000
Profit/(loss)		
Reportable segment profit/(loss)	**164,808**	(24,226)
Unallocated head office and corporate results	**(15,463)**	(109,205)
Profit/(loss) before taxation	**149,345**	(133,431)

4 OTHER REVENUE AND NET INCOME

	2011 $'000	2010 $'000
Continuing operations		
Interest income from loan to a director (note 19)	**18,318**	16,593
Other interest income	**9,267**	4,520
Net foreign exchange gain/(loss)	**390**	(2,400)
Others	**(4,781)**	277
	23,194	18,990

5 PROFIT/(LOSS) BEFORE TAXATION

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

	2011 $'000	2010 $'000
Continuing operations		
(a) Finance costs:		
Interest on bank loans	**71,374**	65,152
Interest on convertible bond (Note 12(b))	**102,591**	101,133
Interest on loans from related parties repayable within one year	**16,739**	—
Interest expense on other borrowings repayable on demand	**—**	3
Total interest expense on financial liabilities not carried at fair value through profit or loss	**190,704**	166,288
Less: Interest expense capitalised into investment properties under development and properties under development *	**(60,418)**	(46,677)
	130,286	119,611

* The borrowing costs have been capitalised at rates ranging from 5.4%-6.4% per annum (2010: 5.4%-5.76% per annum).

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

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

	2011	2010
	$'000	$'000
(b) Staff costs:		
Contributions to defined contribution retirement plan	**253**	173
Salaries, wages and other benefits	**9,541**	7,600
	9,794	7,773
(c) Other items:		
Amortisation of prepaid lease payments	**65**	65
Depreciation of property, plant and equipment	**802**	648
Impairment losses of trade and other receivables	**180**	—
Auditor's remuneration		
— Audit services	**941**	762
— Other services	**1,207**	760
Operating lease charges: minimum lease payments on the hire of property, plant and equipment	**379**	365
Loss/(gain) on disposal of property, plant and equipment	**45**	(109)
Revaluation surplus on property, plant and equipment (note 13(b))	**(518)**	(233)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2011 $'000	2010 $'000
Deferred tax		
Origination and (reversal) of temporary differences (note 30(b))	**17,626**	(15,969)
	17,626	(15,969)

(i) Bermuda and British Virgin Islands ("BVI") Profits Tax

Pursuant to the rules and regulations of the Bermuda and BVI, the Group is not subject to any income tax in the Bermuda Islands and BVI.

(ii) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and the Group did not have assessable profit in Hong Kong for the year.

(iii) PRC Corporate Income Tax ("CIT")

No provision for CIT has been made in the financial statements as the Group's subsidiaries in the PRC did not have assessable profits during the year.

(b) Reconciliation between tax (credit)/expense and accounting profit/(loss) at applicable tax rates (for continuing and discontinued operations):

	2011 $'000	2010 $'000
Profit/(loss) before taxation	**215,081**	(69,524)
Notional tax calculated at rates applicable to profits in the tax jurisdictions concerned	**50,113**	(7,798)
Tax effect of non-deductible expenses	**25,192**	19,926
Tax effect of non-taxable income	**(32,385)**	(605)
Tax effect of unused tax losses not recognised	**407**	251
LAT and corresponding PRC Corporate Income Tax effect	**(22,502)**	6,565
Tax loss brought forward recognised as deferred tax asset	**(502)**	(8,396)
Provision for withholding tax in respect of dividends declared	**–**	313
Actual tax expense	**20,323**	10,256

7 DISCONTINUED OPERATIONS

On 3 March 2011, the Company entered into a conditional agreement to dispose of the Disposal Group to a third party, China Fair Land Properties Limited. The transaction was completed on 24 May 2011 and resulted in a gain of $62,460,000.

As a result, the financial information for the year ended 31 December 2010 has been restated to separate the discontinued operations from the continuing operations.

(a) Results and net assets of discontinued operations and effects of the disposal to the Group

The consolidated results of the discontinued operations for the year ended 31 December 2011 (up to 24 May 2011, being date of disposal) and 2010 are set out below:

	Note	**Period from 1 January to 24 May 2011 $'000**	Year ended 31 December 2010 $'000
Turnover		**15,620**	174,379
Cost of sales	7(c)(ii)	**(6,792)**	(102,816)
Gross profit		**8,828**	71,563
Other revenue and net (losses)		**(997)**	6,695
Selling, administrative and other operating expenses		**(4,618)**	(22,426)
Valuation gain on investment properties		**—**	9,152
Profit from operations		**3,213**	64,984
Finance costs	7(c)(i)	**—**	(1,078)
Profit before taxation	7(d)	**3,213**	63,906
Income tax	7(d)	**(2,697)**	(26,225)
Profit for the period/year		**516**	37,681
Gain on disposal of subsidiaries		**62,460**	—
Total profit for the period/year		**62,976**	37,681
Attributable to:			
Equity shareholders of the Company		**61,852**	14,432
Non-controlling interests		**1,124**	23,249
Profit for the period/year		**62,976**	37,681
Earnings per share (HK cents)	12		
Basic		**2.7**	0.8
Diluted		**0.6**	N/A

7 DISCONTINUED OPERATIONS *(Continued)*

(a) Results and net assets of discontinued operations and effects of the disposal to the Group *(Continued)*

The net assets of the Disposal Group at 24 May 2011 and the effect of disposal are as follow:

	$'000
Net assets disposed of:	
Investment properties	103,508
Property, plant and equipment	16,085
Prepaid lease payments	3,637
Deferred tax assets	3,713
Properties under development	173,940
Properties held for sale	104,777
Trade and other receivables	93,603
Tax prepayments	10,804
Cash at bank and in hand	266,769
Trade and other payables	(224,496)
Receipts in advance	(185,821)
Current taxation	(83,533)
Bank loans	(96,320)
Deferred tax liabilities	(10,584)
Non-controlling interests	(107,644)
Net assets disposed of	68,438
Total consideration	150,656
Net assets disposed of	(68,438)
Sale loans (i)	(25,785)
Reclassification adjustment of the exchange reserve related to the Disposal Group	6,027
Gain on disposal of subsidiaries	62,460
Consideration satisfied by:	
Cash	44,966
Other receivables (ii)	105,690
	150,656
Net cash outflow in respect of the disposal of subsidiaries:	
Cash consideration received as of 31 December 2011	44,966
Cash of subsidiaries disposed of	(266,769)
Net cash outflow	(221,803)

7 DISCONTINUED OPERATIONS *(Continued)*

(a) Results and net assets of discontinued operations and effects of the disposal to the Group *(Continued)*

(i) Sale loans represented amounts due from the Disposal Group of approximately $33,942,000 less amounts due to the Disposal Group of approximately $8,157,000. The amounts were added back upon disposal.

(ii) Pursuant to the purchase agreement, the consideration was to be payable in cash in three installment as follows:

a. as to $44,966,000 on the completion date;

b. as to $44,966,000 within 90 days after completion date; and

c. as to $60,724,000, being the remaining balance of the consideration within 180 days after completion date.

Further to negotiation between the Company and China Fair Land Properties Limited during the year, the Company agreed that China Fair Land Properties Limited would settle the second and third instalments, amounting to $105,690,000 in total, by 30 June 2012. The board of directors considers the amount to be fully recoverable.

(b) Analysis of cash flows of the discontinued operations

	Period from 1 January to 24 May 2011 $'000	Year ended 31 December 2010 $'000
Net cash inflow from operating activities	**98,330**	450
Net cash inflow from investing activities	**2,361**	1,118
Net cash inflow from financing activities	**9,618**	80,219
Net cash inflow attributable to the discontinued operations	**110,309**	81,787

7 DISCONTINUED OPERATIONS *(Continued)*

(c) Profit before taxation

	Period from 1 January to 24 May 2011 $'000	Year ended 31 December 2010 $'000
(i) Finance costs:		
Interest on bank loans	**4,346**	1,538
Interest expense on other borrowing wholly repayable on demand	**–**	639
	4,346	2,177
Less: Interest expenses capitalised into properties under development	**(4,346)**	(1,099)
	–	1,078
(ii) Other items:		
Amortisation and depreciation	**467**	993
Rentals receivable from investment properties less direct outgoings of $239,000 (year ended 31 December 2010: $223,000)	**(1,647)**	(3,654)
Cost of properties sold	**6,792**	102,816

7 DISCONTINUED OPERATIONS *(Continued)*

(d) Taxation

	Period from 1 January to 24 May 2011 $'000	Year ended 31 December 2010 $'000
Current tax		
PRC Corporate Income Tax (ii)	**916**	12,997
PRC Land Appreciation Tax (iii)	**1,331**	12,795
	2,247	25,792
Deferred tax		
Origination of temporary differences	**450**	433
	2,697	26,225

(i) No provision for Hong Kong Profits Tax has been made as the Disposal Group did not have any assessable profit in Hong Kong for the year.

(ii) PRC Corporate Income Tax

Provision for CIT is calculated at the applicable tax rates on the estimated assessable profits of the entities of the Disposal Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The CIT rate applicable to the Disposal Group's subsidiaries in the PRC is 25% (2010: 25%).

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

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

8 DIRECTORS' REMUNERATION

Directors' remuneration is as follows:

	2011			
	Directors' fee $'000	Salaries allowances and benefits in kind $'000	Retirement scheme contributions $'000	Total $'000
Chairman:				
Mr. Chen Chang Wei	–	2,825	12	2,837
Executive directors:				
Ms. Chan Sheung Ni (i)	–	355	6	361
Ms. Chen Dong Xue	–	1,130	–	1,130
Mr. Chan Chi Wang (ii)	–	414	6	420
Ms. Wu Weilan (ii)	–	318	6	324
Independent non-executive directors:				
Ms. Lin Wen Feng	80	–	–	80
Mr. Ma Ving Lung	100	–	–	100
Mr. Yip King Keung, Pony	80	–	–	80
	260	5,042	30	5,332

(i) Remuneration for Ms. Chan Sheung Ni, represented remuneration paid or payable to her during the period from 1 January 2011 to 22 June 2011, date of resignation as a director.

(ii) Remuneration for newly appointed directors, namely Mr. Chan Chi Wang and Ms. Wu Weilan represented remuneration paid or payable to them since they were appointed as directors on 1 July 2011.

8 DIRECTORS' REMUNERATION *(Continued)*

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

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, all (2010: three) of them are directors. The emoluments disclosed in note 8 represented such amounts paid/payable since their appointment or up to her resignation. The emoluments in respect of these individuals, including the emoluments of the directors and already included in the directors' remuneration in note 8, are as follows:

	2011 $'000	2010 $'000
Salaries and other emoluments	**5,875**	5,003
Retirement scheme contributions	**48**	48
	5,923	5,051

The emoluments of the individuals with the highest emoluments are all within the band of nil to $1,000,000.

10 PROFITS/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $109,420,000 (2010: loss of $109,177,000) which has been dealt with in the financial statements of the Company.

11 OTHER COMPREHENSIVE INCOME

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

	2011			2010		
	Before tax amount $'000	**Tax effect $'000**	**Net-of-tax amount $'000**	Before tax amount $'000	Tax effect $'000	Net-of-tax amount $'000
Exchange differences on translation of financial statements of subsidiaries in the PRC	**148,820**	**—**	**148,820**	108,533	—	108,533
Surplus on revaluation of property, plant and equipment	**347**	**(87)**	**260**	427	(106)	321
Exchange reserve realised on disposal of subsidiaries	**(6,027)**	**—**	**(6,027)**	—	—	—
	143,140	**(87)**	**143,053**	108,960	(106)	108,854

12 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of $185,411,000 (2010: loss of $102,911,000) divided by the weighted average number of 2,321,839,000 ordinary shares (2010: 1,672,111,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2011 '000	2010 '000
Issued ordinary shares at 1 January	**1,118,507**	1,118,507
Effect of rights issue (note 31(b))	**1,115,412**	553,604
Effect of exercise of convertible bond (note 31(b))	**87,920**	—
	2,321,839	1,672,111

(i) The weighted average number of ordinary shares has been adjusted for rights issues in 2010.

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

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on profit/(loss) attributable to equity shareholders of the Company of $288,002,000 and the weighted average number of 9,170,879,000 shares of all dilutive potential ordinary shares, calculated as follows. As at 31 December 2011, the Company has only one category of potential ordinary shares, which is convertible bond.

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2011 $'000
Profit attributable to ordinary equity shareholders	185,411
After tax effect of effective interest on the liability component of convertible bond	102,591
	288,002

(ii) Weighted average number of ordinary shares (diluted)

	2011 '000
Weighted average number of ordinary shares at 31 December	2,321,839
Effect of conversion of convertible bond (note 28)	6,849,040
	9,170,879

The diluted loss per share for the year ended 31 December 2010 is not presented as the potential ordinary shares had anti-dilution effect on the earnings per share.

13 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Building held for own use carried at fair value $'000	Prepaid lease payment $'000	Leasehold improvements $'000	Furniture, fixtures, and equipment $'000	Motor vehicles $'000	Total $'000
Cost or valuation:						
At 1 January 2010	16,203	29,537	118	995	3,365	50,218
Exchange adjustments	597	182	–	114	972	1,865
Additions	–	–	–	58	–	58
Disposals	–	–	–	–	(469)	(469)
Surplus on revaluation	660	–	–	–	–	660
Less: elimination of accumulated depreciation	(933)	–	–	–	–	(933)
At 31 December 2010	16,527	29,719	118	1,167	3,868	51,399
Representing:						
Cost	–	29,719	118	1,167	3,868	34,872
Valuation-2010	16,527	–	–	–	–	16,527
	16,527	29,719	118	1,167	3,868	51,399
At 1 January 2011	16,527	29,719	118	1,167	3,868	51,399
Exchange adjustments	255	77	–	126	420	878
Additions	–	–	–	149	1,915	2,064
Disposals	–	–	–	(52)	(396)	(448)
Disposal of subsidiaries	(15,183)	(4,596)	–	(683)	(2,324)	(22,786)
Surplus on revaluation	865	–	–	–	–	865
Less: elimination of accumulated depreciation	(464)	–	–	–	–	(464)
At 31 December 2011	2,000	25,200	118	707	3,483	31,508
Representing:						
Cost	–	25,200	118	707	3,483	29,508
Valuation-2011	2,000	–	–	–	–	2,000
	2,000	25,200	118	707	3,483	31,508

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The Group *(Continued)*

	Building held for own use carried at fair value $'000	Prepaid lease payment $'000	Leasehold improvements $'000	Furniture, fixtures, and equipment $'000	Motor vehicles $'000	Total $'000
Accumulated depreciation:						
At 1 January 2010	–	902	71	467	1,888	3,328
Exchange adjustments	–	35	–	21	397	453
Charge for the year	933	160	36	192	385	1,706
Written back on disposals	–	–	–	–	(317)	(317)
Elimination on revaluation	(933)	–	–	–	–	(933)
At 31 December 2010	–	1,097	107	680	2,353	4,237
At 1 January 2011	–	1,097	107	680	2,353	4,237
Exchange adjustments	–	16	–	114	401	531
Charge for the year	464	106	11	209	521	1,311
Written back on disposals	–	–	–	(47)	(356)	(403)
Written back on disposals of subsidiaries	–	(959)	–	(463)	(1,642)	(3,064)
Elimination on revaluation	(464)	–	–	–	–	(464)
At 31 December 2011	–	260	118	493	1,277	2,148
Net book value:						
At 31 December 2011	2,000	24,940	–	214	2,206	29,360
At 31 December 2010	16,527	28,622	11	487	1,515	47,162

(b) Revaluation of property held for own use

The building held by the Group for own use were revalued on an open market value basis at the end of each reporting period by independent firms of surveyors. The valuation of the property as at 31 December 2011 was carried out by RHL Appraisal Limited, which has recent experience in the location and category of property being valued. The revaluation surplus of $518,000 (2010: $233,000) has been recognised in profit or loss of the Group, net of deferred tax (note 5(c)). The revaluation surplus of the property included in the Disposal Group of $347,000 (2010: $427,000) has been recognised in other comprehensive income and accumulated in the property revaluation reserve of the Group, net of deferred tax (note 11). The property revaluation reserve has been subsequently released as at the date of the disposal.

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Revaluation of property held for own use *(Continued)*

Had the property held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been approximately $1,331,000 (2010: $12,860,000) at 31 December 2011.

As at 31 December 2011, the property, plant and equipment and the prepaid lease payments with carrying value amounting to $2,000,000 and $24,940,000 respectively are pledged as collateral for the Group's borrowings (note 26).

(c) The analysis of net book value of the property of the Group is as follows:

	2011 **$'000**	2010 $'000
Held under long leases (over 50 years)		
— in Hong Kong	**26,940**	27,711
— in the PRC	**—**	17,438
	26,940	45,149

	2011 **$'000**	2010 $'000
Representing:		
— Building held for own use carried at fair value	**2,000**	16,527
— Prepaid lease payment	**24,940**	28,622
	26,940	45,149

14 INVESTMENT PROPERTIES UNDER DEVELOPMENT

	The Group	
	2011 **$'000**	2010 $'000
Transfer from property under development (note 20)	**1,300,263**	—
Additions	**116,509**	—
Exchange adjustments	**51,028**	—
Fair value adjustment	**215,701**	—
At 31 December	**1,683,501**	—

14 INVESTMENT PROPERTY UNDER DEVELOPMENT *(Continued)*

The Group acquired the Hengli City property development project in Fuzhou in 2008 with the intention to sell the shopping spaces and car parks after completion of construction. Hence the shopping spaces and car parks were initially classified as property under development under current assets. The plan was subsequently changed and, during the year, the Group entered into a lease agreement with a tenant to lease the entire shopping spaces and certain car parks of the Hengli City property development project upon completion of construction. Accordingly, the shopping spaces and certain car parks, with carrying value amounted to $1,300,263,000, were transferred to investment properties under development during the year.

The Group's investment properties under development was revalued on an open market value basis at the end of the reporting period by an independent firm of surveyors, Savills Valuation and Professional Services Limited, which has recent experience in the respective location and category of property being valued. As a result of the revaluation, a net gain of $215,701,000 has been recognised in profit or loss for the year in respect of investment properties under development.

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

	2011	2010
	$'000	$'000
Within 1 year	**4,061**	—
After 1 year but within 5 years	**246,615**	—
After 5 years	**1,282,530**	—
	1,533,206	—

As at 31 December 2011, the Group's investment properties under development with carrying value amounting to $1,446,741,000 is pledged as collateral for the Group's borrowings (note 26).

15 INVESTMENT PROPERTIES

	The Group	
	2011	2010
	$'000	$'000
At 1 January	**101,771**	88,105
Exchange adjustments	**1,737**	3,935
Additions	**—**	1,372
Disposal of subsidiaries	**(103,508)**	(793)
Fair value adjustment	**—**	9,152
At 31 December	**—**	101,771

16 GOODWILL

	The Group	
	2011	2010
	$'000	$'000
Cost	**394,782**	394,782
Accumulated impairment losses	**(299,000)**	(299,000)
Exchange adjustment	**9,749**	4,079
Carrying amount	**105,531**	99,861

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

The Group carried out impairment testing of the goodwill at the end of each reporting period. As a result of the downturn of the PRC property market in 2008, an impairment loss of $299,000,000 in respect of the goodwill was recorded. No further impairment is considered necessary as a result of subsequent appreciation of property prices. The goodwill was not written back in accordance with the Group's accounting policy as set out note 1(e).

In assessing the impairment of goodwill, the recoverable amount of the cash generating unit ("CGU") is determined. The CGU related to the goodwill includes all subsidiaries of Amazing Wise under the Fujian segment. The recoverable amount of the CGU is determined based on value-in-use calculations under the Fujian segment. These calculations use cash flow projections based on financial budgets approved by management covering a 5-year period. Cash flows are extrapolated using an estimated weighted average growth rate of 3%-5% (2010: 3%-5%). The cash flows are discounted using a discount rate of 17% (2010: 16%). In determining discount rate, the Capital Assets Pricing Model ("CAPM") was used. Under CAPM, the appropriate expected rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. The management's key assumptions include profit margins which have been determined based on past performance and its expectations for market performance. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

17 AVAILABLE-FOR-SALE INVESTMENT

The investment represented the Group's unlisted investment in the equity interest in China Real Estate Development Group Investment Co., Limited, which was disposed of during the year.

18 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2011	2010
	$'000	$'000
Unlisted investments, at cost	**1,705,241**	1,705,241

Particulars of principal subsidiaries of the Group are as follow:

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	held by the Company	held by a subsidiary	Principal activities
Amazing Wise Limited	British Virgin Islands	10 ordinary shares of US$1 each	100%	100%	–	Investment holding
Dalong Industrial Group Limited	Hong Kong	10,000,000 ordinary shares of $1 each	100%	–	100%	Investment holding
Fujian Zhonglu Real Estate Development (HK) Limited	Hong Kong	1,000 ordinary shares of $1 each	100%	–	100%	Treasury
Fujian Zhonglu Real Estate Development Co., Limited (notes i and ii)	PRC	RMB129,820,000	95% (note iv)	–	95%	Property development
Fujian Hengli Real Estate Development Co., Limited (note iii)	PRC	RMB180,000,000	100%	–	100%	Property development
Fujian Hengli Commercial properties Co. Limited (note iii)	PRC	RMB53,490,400	100%	–	100%	Property management
Fujian Hengli Bona Plaza Development Co. Limited (note i)	PRC	–	70%	–	70%	Property development
Fuzhou Hengli & Savills Property Management Co. Limited (note i)	PRC	RMB500,000	55%	–	55%	Property management

18 INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

ii 30% of the Group's interest in this entity has been pledged as a collateral for the advance from lessee (see note 27).

iii These entities are wholly foreign owned enterprises established in the PRC.

iv Pursuant to a share transfer agreement (the "Agreement") dated 22 May 2005 between Dalong Industrial Limited ("Dalong"), a subsidiary of the Group, and Fujian Zhonglu Group Co., Limited ("Zhonglu Group"), Zhonglu Group agreed to transfer 95% of equity of Fujian Zhonglu Real Estate Development Co., Limited ("Fujian Zhonglu") to Dalong, after which Fujian Zhonglu became a subsidiary of Dalong. Zhonglu Group has since then been the non-controlling equity holder of Fujian Zhonglu. According to the Agreement, certain assets and liabilities related to an old project commenced before the transfer were retained by Zhonglu Group, the relevant risks and benefits of the aforesaid projects were also retained by Zhonglu Group. Fujian Zhonglu maintains a separate books and records for this old project. As at 31 December 2011, the relevant assets and liabilities amounted to $43,660,000 (2010: $42,017,000) and $43,400 (2010: $42,000) respectively have not been legally transferred. However, as the risk and benefits of these assets and liabilities were retained by Zhonglu Group, these assets and liabilities were excluded from the consolidated financial statements. The Group is therefore entitled to 95% of the equity interest of Fujian Zhonglu excluding the above mentioned assets and liabilities.

19 LOAN TO A DIRECTOR

	The Group $'000
At 1 January 2010	295,129
Exchange adjustment	12,821
Interest income (note 4)	16,593
At 31 December 2010 and 1 January 2011	324,543
Exchange adjustment	12,865
Interest income (note 4)	18,318
Settlement	(355,726)
At 31 December 2011	–

Loan to a director represented loan from Fujian Zhonglu to Mr. Chen Chang Wei ("Mr. Chen"), a shareholder and director of the Group, repayable at 31 December 2011.

19 LOAN TO A DIRECTOR *(Continued)*

On 21 November 2011, the Company entered into a sale and purchase agreement with Mr. Chen, pursuant to which Mr. Chen agreed to sell, and the Company agreed to purchase, convertible bond in the principal amount of $356,000,000 by way of the setting off of the loan to Mr. Chen of RMB289,330,000 (equivalent to approximately $355,726,000) and the remaining balance in cash. As a result, the loan has been fully settled as at 31 December 2011. Please also refer to note 28(iii).

20 PROPERTIES UNDER DEVELOPMENT

	The Group	
	2011	2010
	$'000	$'000
At 1 January	**4,090,776**	3,571,791
Additions	**998,089**	372,408
Exchange adjustments	**232,160**	146,577
Transfer to investment properties under development (note 14)	**(1,300,263)**	—
Disposal of subsidiaries	**(173,940)**	—
	3,846,822	4,090,776

(a) Properties under development in the statement of financial position comprise:

	The Group	
	2011	2010
	$'000	$'000
Land use rights	**2,837,811**	3,181,376
Construction costs	**878,884**	792,641
Interest expense capitalised	**130,127**	116,759
	3,846,822	4,090,776

The properties under development are all located in the PRC.

As at 31 December 2011, the properties under development amounting to $1,142,230,000 (2010: $3,648,859,000) were pledged as collateral for the Group's borrowings (see note 26).

20 PROPERTIES UNDER DEVELOPMENT *(Continued)*

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

	The Group	
	2011	2010
	$'000	$'000
Held under:		
— long leases (over 50 years) in the PRC	**1,170,807**	1,685,026
— medium-term leases (10 to 50 years) in the PRC	**1,667,004**	1,496,350
	2,837,811	3,181,376

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Trade receivables	**1,592**	2,370	**1,566**	1,566
Prepayments, other receivables and deposits	**265,887**	90,716	**105,690**	3,059
Amounts due from subsidiaries	**—**	—	**458,757**	438,187
	267,479	93,086	**566,013**	442,812

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

The amount of the Group's and the Company's deposits and prepayments expected to be recovered or recognised as expense after more than one year are $10,626,000 (2010: $20,419,000) and nil (2010: $21,000) respectively.

Details of the Group's credit policy are set out in note 32(a).

21 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

The ageing analysis of trade receivables is as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Current	**1,592**	2,370	**1,566**	1,566

At 31 December 2011, no impairment allowance is necessary in respect of the Group's and the Company's trade receivables as the management considers that the balances are fully recoverable. The Group does not hold any collateral over these balances.

22 RESTRICTED BANK DEPOSITS

Bank deposits have been pledged as security for bank loans (see note 26). The pledged bank deposits will be released upon the settlement of relevant bank loans.

23 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**58,017**	209,835	**1,328**	6,763

23 CASH AND CASH EQUIVALENTS *(Continued)*

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

	Note	2011 $'000	2010 $'000
Profit/(loss) before taxation resulting from:			
Continuing operations		**149,345**	(133,431)
Discontinuing operations		**3,213**	63,906
Net gain on disposal of subsidiaries		**62,460**	—
		215,018	(69,525)
Adjustments for:			
Gain on early redemption of convertible bonds		**(100,669)**	—
Valuation gain on investment properties under development		**(215,701)**	—
Valuation gain on investment properties		**—**	(9,152)
Dividend income		**—**	(478)
Revaluation surplus on property, plant and equipment		**(518)**	(233)
Depreciation		**1,205**	1,546
Loss/(gain) on disposal of property, plant and equipment	5(c)	**45**	(109)
Amortisation of prepaid lease payments		**106**	160
Finance costs		**130,286**	120,689
Interest income from loan to a director	4	**(18,318)**	(16,593)
Other interest income	4	**(9,267)**	(5,160)
Disposal of discontinued operations		**(62,460)**	—
Changes in working capital:			
Increase in properties under development		**(933,325)**	(382,842)
Decrease in properties held for sale		**—**	57,838
Increase in trade and other receivables		**(157,187)**	(284,367)
Increase in deposit for land use right		**(472,456)**	—
Increase in receipts in advance		**1,107,370**	687,659
Increase/(decrease) in trade and other payables		**615,749**	(12,129)
Cash generated from operations		**99,878**	87,304

24 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Trade payables	**185,174**	220,514	**—**	—
Other creditors and accrued charges	**98,173**	134,861	**380**	3,086
Deposits from customers and other parties	**573,198**	—	**—**	—
Interest payable to related parties	**17,013**	—	**2,327**	—
Amounts due to subsidiaries	**—**	—	**715,326**	328,485
Amounts due to non-controlling equity holders	**26**	18,886	**—**	—
	873,584	374,261	**718,033**	331,571

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

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

	The Group	
	2011	2010
	$'000	$'000
Due within 3 months or on demand	**40,681**	108,727
Due after 3 months but within 12 months	**144,493**	111,787
	185,174	220,514

25 RECEIPTS IN ADVANCE

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

26 LOANS FROM FINANCIAL INSTITUTIONS

At 31 December 2011, loans from financial institutions were repayable and secured as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Within 1 year	**781,373**	1,264,082	**50,000**	50,000
After 1 year but within 2 years	**328,049**	155,477	**—**	—
After 2 year but within 5 years	**6,662**	6,478	**—**	—
After 5 years	**3,347**	5,629	**—**	—
	1,119,431	1,431,666	**50,000**	50,000

(a) **Assets of the Group pledged to secure the loans from financial institutions comprise:**

	2011	2010
	$'000	$'000
Property, plant and equipment (note 13(b))	**2,000**	1,599
Prepaid lease payments (note 13(b))	**24,940**	28,622
Investment properties under development (note 14)	**1,446,741**	—
Properties under development (note 20)	**1,142,230**	3,648,859
Restricted bank deposits (note 23)	**349,423**	344,637
	2,965,334	4,023,717

(b) Certain loans from financial institutions at 31 December 2011 were guaranteed by Mr. Chen and were secured by certain personal properties.

(c) During the year, one of the subsidiary's bank loans amounted to a total of RMB350,000,000 fell due and was not settled on the due dates on 21 December 2011 and 24 December 2011. Pursuant to careful consideration of the Group's funding needs, the Group completed a refinancing arrangement with a financial institution on 29 December 2011 whereby the outstanding loans amounted to RMB350,000,000 are restructured and are repayable by instalments within the following two years before 20 December 2013. An upfront fee at 2% of the loan was paid to the financial institution. The refinanced loans bear interest at 14% per annum for the first six months of the loan period and at 18% per annum thereafter. An additional default interest at 0.1% per month based on the overdue principal amount will be charged in the event of a default to repay the loans in the respective due dates for the first six months after the date of the agreement and 0.3% per month on overdue amounts subsequently. Certain property under development was pledged to secure the granting of such loan. In addition, the subsidiary is subject to certain financial covenants.

26 LOANS FROM FINANCIAL INSTITUTIONS *(Continued)*

(c) *(Continued)*

In addition, a loan of another subsidiary of the Group amounted to RMB250,000,000 is also subject to fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with banks. If the subsidiary were to breach the covenants the drawn down facilities would become repayable on demand. During the year ended 31 December 2011, the Group was not in compliance with one of these balance sheet ratios. Accordingly, the loan is reclassified from non-current liabilities to current liabilities, although the bank has not demanded for an immediate repayment of the loan up to the date of this report. As at 31 December 2011, no other covenants relating to the drawn down facilities had been breached.

27 ADVANCE FROM LESSEE

The advance from lessee is non-interest bearing, repayable on 14 February 2013 and is secured by the Group's 30 percent interest in a subsidiary.

28 CONVERTIBLE BOND

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

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

— Conversion rights are exercisable at any time up to maturity at the option of convertible bond holders.

— Pursuant to the terms of the convertible bond, the exercise/conversion price and the number of shares to be issued upon exercise of the subscription rights attached to the convertible bond have been adjusted as a result of a rights issue in January 2011. The Company is required to deliver ordinary shares at a rate of $0.334 per share (originally $0.5 per share before the right issue).

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

At 31 December 2011, the outstanding principal amount of the convertible bond is $1,916,000,000 (2010: $2,347,712,000).

28 CONVERTIBLE BOND *(Continued)*

The convertible bond recognised in the statements of financial position of the Group and the Company are analysed as follows:

	Liability component $'000	Equity component $'000
Net carrying amount at 31 December 2010	1,368,839	136,770
Interest expense (i)	102,591	—
Conversion rights exercised (ii)	(17,970)	(1,789)
Convertible bond repurchased (iii)	(250,079)	(23,361)
Net carrying amount at 31 December 2011	1,203,381	111,620

(i) Interest expense

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

(ii) Conversion rights exercised

On 17 January 2011, convertible bond with principal amount of $30,711,500 was converted.

(iii) Convertible bond repurhcased

On 8 June 2011, the Company repurchased convertible bond with principal amount of $45,000,000 held by Mr. Chen, representing approximately 1.94% of the outstanding principal amount of the convertible bond at the date of the repurchase. The consideration is equal to the face value of the convertible bond and is settled by cash. As a result of the repurchase, the liability component of the convertible bond was remeasured at its fair value at the date of the repurchase and compared to the carrying amount of the convertible bond. A fair value gain of approximately $4,403,000 was recognised in the profit or loss.

28 CONVERTIBLE BOND *(Continued)*

(iii) Convertible bond repurhcased*(Continued)*

As disclosed in note 19, the Company entered into a sale and purchase agreement to repurchase convertible bond with principal amount of $356,000,000 held by Mr. Chen, representing approximately 15.67% of the outstanding principal amount of the convertible bond at the date of the repurchase. The consideration is equal to the face value of the convertible bond repurchased and is settled by way of setting off the loan of RMB289,329,962 (equivalent to approximately $355,726,270) due from Mr. Chen to the Group and the remaining balance of $273,730 in cash. The repurchase was completed on 31 December 2011 and as a result of the repurchase, the liability component of the convertible bond was remeasured at its fair value at the date of the repurchase and compared to the carrying amount of the convertible bond. A fair value gain of approximately $96,266,000 was recognised in the profit or loss.

(iv) During the year ended 31 December 2011, the Company executed supplemental deeds to modify the terms of the convertible bond as follows:

— Amendment to the restriction to the maximum number conversion rights exercisable at any time up to maturity from not exceeding 29% of the issued share capital of the Company following such conversion or such lower percentage as may from time to time be specified in the Takeovers Code to a number that will not (i) trigger an obligation on the part of the relevant holder(s) of the Convertible Bonds to make a mandatory offer under Rule 26.1 of the Takeovers Code; or (ii) result in the Company not being able to comply with the minimum public float requirement under the Listing Rules.

The above modification is neither considered as being substantial nor having a significant impact to the Group.

— Insertion of an early redemption provision such that the Company shall have the right at any time to redeem the whole or any part of the outstanding principal amount of the convertible bond at their face value.

The option to enable to Company to redeem the convertible bond at any time before its maturity is considered as an asset and the fair value of the option has been recognised as an derivative financial asset as at the insertion date. The Directors consider such option to be contributed by Mr. Chen in the capacity of the major shareholder and therefore the asset was credited to capital reserve.

Other than the recognition of a derivative financial asset, the above modification is neither considered as being substantial nor having a significant impact to the Group.

29 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

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

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 12% to 18% of the salaries, bonuses and certain allowances of the employees.

The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2011	2010
	$'000	$'000
Current tax recoverable:		
PRC Corporate Income Tax	**71,693**	35,678
PRC Land Appreciation Tax	**48,314**	19,058
	120,007	54,736
Current tax payable:		
PRC Corporate Income Tax	**2,749**	37,636
PRC Land Appreciation Tax	**–**	42,446
	2,749	80,082

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Revaluation of properties $'000	Revaluation of investment properties under development $'000	Land appreciation tax $'000	Effective interest $'000	Tax losses carried forward $'000	Total $'000
At 1 January 2010	(985,431)	–	8,838	8,394	–	(968,199)
Exchange adjustments	(659)	–	419	245	444	449
Credited/(charged) to profit or loss	7,420	–	(4,860)	(4,148)	17,124	15,536
Credited to reserves	(40)	–	–	–	–	(40)
Credited to non-controlling interest	(66)	–	–	–	–	(66)
At 31 December 2010	(978,776)	–	4,397	4,491	17,568	(952,320)
At 1 January 2011	(978,776)	–	4,397	4,491	17,568	(952,320)
Exchange adjustments	(37,200)	–	68	88	887	(36,157)
Transfer to investment properties under development	203,784	(203,784)	–	–	–	–
Credited/(charged) to profit or loss	23,746	(47,455)	(665)	(4,579)	10,661	(18,292)
Credited to reserves	–	–	(32)	–	–	(32)
Credited to non-controlling interests	–	–	(55)	–	–	(55)
Disposal	10,584	–	(3,713)	–	–	6,871
At 31 December 2011	(777,862)	(251,239)	–	–	29,116	(999,985)

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognised: *(Continued)*

	2011 **$'000**	2010 $'000
Deferred tax assets	**–**	4,397
Deferred tax liabilities	**(999,985)**	(956,717)
	(999,985)	(952,320)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $1,063,312 (2010: $1,970,136) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses arose in mainland China can be carried forward for five years and the tax losses of the Group arose elsewhere other than in the mainland do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

The Group is subject to 10% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits earned since 1 January 2008. There is no deferred tax liabilities in respect of temporary differences relating to retained profits not recognised as at 31 December 2011 as the Group's PRC subsidiaries did not have retained profits as at 31 December 2011.

31 CAPITAL AND RESERVES

(a) Movements in components of equity

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

	Note	Share capital $'000	Share premium $'000	Prepaid share reserve $'000	Capital reserve $'000	Special reserve $'000	Convertible bond equity reserve $'000	Convertible bond redemption reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 January 2010		111,851	196,965	–	3,038	127,961	136,770	–	(171,027)	405,558
Changes in equity for 2010										
Total comprehensive income for the year		–	–	–	–	–	–	–	(109,177)	(109,177)
Rights issue of shares	31(b)(ii)	–	(3,826)	111,851	–	–	–	–	–	108,025
Balance at 31 December 2010 and 1 January 2011		111,851	193,139	111,851	3,038	127,961	136,770	–	(280,204)	404,406
Changes in equity for 2011										
Total comprehensive income for the year		–	–	–	–	–	–	–	109,420	109,420
Rights issue of shares	31(b)(ii)	111,851	–	(111,851)	–	–	–	–	–	–
Convertible bond exercised	28	9,195	10,563	–	–	–	(1,789)	–	–	17,969
Convertible bond repurchased	28	–	–	–	60,264	–	(23,361)	(228,228)	–	(191,325)
Arising from disposal of subsidiaries		–	–	–	(3,038)	–	–	–	–	(3,038)
Balance at 31 December 2011		232,897	203,702	–	60,264	127,961	111,620	(228,228)	(170,784)	337,432

31 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2011		2010	
	No. of shares	**Amount**	No. of shares	Amount
	'000	**$'000**	'000	$'000
Authorised:				
Ordinary shares of $0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of $0.1 each				
At 1 January	**1,118,507**	**111,851**	1,118,507	111,851
Rights issue of shares (i)	**1,118,507**	**111,851**	—	—
Exercise of convertible bond (ii)	**91,951**	**9,195**	—	—
At 31 December	**2,328,965**	**232,897**	1,118,507	111,851

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

Movement in share capital during the year are as follow:

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

(ii) During the year ended 31 December 2011, 91,951,000 ordinary shares of $0.10 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bond at a conversion price of $0.3340 per share (see note 29 for details of the convertible bond).

31 CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium is governed by Companies Act 1981 of Bermuda.

(ii) Capital reserve

In 2002, upon the reorganisation and the listing of the Company, Mr. So Pang Gen, International Offshore Development Limited ("International Offshore"), Chance Fair International Development Limited and Future Opportunity Limited (hereinafter collectively referred to as the "Covenanters"), entered into a deed of tax indemnity with the Company whereby the Covenanters have on a joint and several basis, under certain terms and conditions, undertaken to indemnify the Company in respect of the LAT which might be payable by any member of the Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date of listing of the Company's shares on the Stock Exchange (the "Listing Date") or by reference to any act, transaction or event occurring or deemed to occur on or before the Listing Date. The capital reserve of the Company and of the Group as at 31 December 2010 represented the estimated indemnity of LAT from the Covenanters. As a result of the disposal of the Group during the year, the capital reserve was extinguished.

As at 31 December 2011, the Company executed supplemental deeds to insert an early redemption clause to the convertible bond and Mr. Chen, the holder of the convertible bonds and major shareholder of the Company, accepted such clause amendment in the capacity of a major shareholder. The capital reserve as at 31 December 2011 represents the fair value of the derivative financial assets.

(iii) Special reserve

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

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

(iv) Exchange reserve

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

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

31 CAPITAL AND RESERVES *(Continued)*

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

(v) Convertible bond equity reserve

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

(vi) Convertible bond redemption reserve

Convertible bond redemption reserve represents the amount transferred from the convertible bond equity reserve resulting from a repurchase or redemption of the convertible bond and the balance of the consideration paid for the repurchase or redemption net of the liability component of the convertible bond extinguished.

(vii) Distributable reserve

As at 31 December 2011, the Company did not have any reserves distributable to shareholders (2010: nil). The Company's share premium account and special reserve of $203,702,000 and $127,961,000 respectively, as at 31 December 2011 may be distributable to shareholders, after netting off with the accumulated losses and the convertible bond redemption reserve in certain circumstances prescribed by Section 54 of the Companies Act 1981 of Bermuda.

(d) Capital management

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

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

The Group monitors capital using a gearing ratio, which is defined as net debt divided by aggregate of net debts and total equity. Net debts are calculated as loans from financial institutions, including current and non-current portion, loans from related parties and convertible bond, net of cash and bank balances as shown in the consolidated statement of financial position. Total equity is as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level.

31 CAPITAL AND RESERVES *(Continued)*

(d) Capital management *(Continued)*

The net gearing ratio at 31 December 2011 and 2010 was as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Loans from financial institutions	**1,119,431**	1,431,666	**50,000**	50,000
Loan from related parties	**394,491**	—	**26,326**	—
Convertible bond	**1,203,381**	1,368,839	**1,203,381**	1,368,839
Total debt	**2,717,303**	2,800,505	**1,279,707**	1,418,839
Less: Cash at bank and in hand & pledged bank deposits	**(407,440)**	(554,472)	**(1,329)**	(6,763)
Net debts	**2,309,863**	2,246,033	**1,278,378**	1,412,076
Total equity	**464,088**	410,378	**337,432**	404,406
Gearing ratio	**83.27%**	84.55%	**79.12%**	77.74%

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

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

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

For deposits at banks and financial institutions, deposits are only placed with reputable banks. For the trade receivables arising from sales of properties, the Group manages the credit risk by fully receiving cash before delivery of property. The Group has set out policies to ensure follow-up action is taken to recover overdue debts. The Group also reviews regularly the recoverable amount of each individual trade receivable balance to ensure that adequate impairment losses are made for irrecoverable amounts. The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

In addition, the Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is set out in note 34. Except for these financial guarantee by the Group as set out in note 34, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of each reporting period is disclosed in note 34.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

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

(b) Liquidity risk

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

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

The Group:

	2011					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total $'000	Balance sheet carrying amount $'000
Trade and other payables	856,571	–	–	–	856,571	856,571
Advance from lessee	–	123,000	–	–	123,000	123,000
Loans from related parties	405,262	–	–	–	405,262	394,491
Loans from financial institutions	865,183	361,956	7,234	3,418	1,237,791	1,119,431
Convertible bond	–	–	–	1,916,000	1,916,000	1,203,381
	2,127,016	484,956	7,234	1,919,418	4,538,624	3,696,874

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

(b) Liquidity risk *(Continued)*

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

The Company:

	2011			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand $'000	**More than 1 year $'000**	**Total $'000**	**Balance sheet carrying amount $'000**
Other payables	**715,707**	**—**	**715,707**	**715,707**
Loans from related parties	**28,552**	**—**	**28,552**	**26,327**
Loans from financial institutions	**50,000**	**—**	**50,000**	**50,000**
Convertible bond	**—**	**1,916,000**	**1,916,000**	**1,203,381**
	794,259	**1,916,000**	**2,710,259**	**1,995,415**

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

(b) Liquidity risk *(Continued)*

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

As shown in the above analysis, loans from financial institutions of the Group amounting to $557,683,000 (2010: $1,327,541,000) were due to be repaid during 2012.

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

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

(c) Interest rate risk

The Group's interest rate risk arises primarily from loans from related parties and financial institutions. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

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

The Group:

	2011		2010	
	Effective interest rate %	**$'000**	Effective interest rate %	$'000
Fixed rate borrowings:				
— Convertible bond	**8.0**	**1,203,381**	8.0	1,368,839
— Loans from financial institutions	**3.25~5.76**	**586,500**	2.8~3.25	156,000
— Loans from related parties	**8.0~20.0**	**377,479**	—	—
		2,167,360		1,524,839
Variable rate borrowings:				
— Loans from financial institutions	**2.0~6.0**	**532,931**	2.0~6.0	1,275,666
Total borrowings		**2,700,291**		2,800,505

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

(c) Interest rate risk *(Continued)*

(i) Interest rate profile *(Continued)*

The Company:

	2011		2010	
	Effective interest rate %	**$'000**	Effective interest rate %	$'000
Fixed rate borrowings:				
— Convertible bond	**8.0**	**1,203,381**	8.0	1,368,839
— Loans from related parties	**8.0~20.0**	**24,000**	—	—
		1,227,381		1,368,839
Variable rate borrowings:				
— Loans from financial institutions	**2.0**	**50,000**	2.0	50,000
Total borrowings		**1,277,381**		1,418,839

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's financial costs by approximately $4,689,000 (2010: $2,703,000). The Group's profit after tax would decrease/increase by approximately $1,656,000 (2010: $389,000), after taking into account of interest capitalisation to properties under development. Other components of consolidated equity would not be affected by the changes in interest rates.

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

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

The sensitivity analysis above indicates the instantaneous change in the Group's profit/loss after tax (and retained profits/accumulated losses) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of each reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate instruments held by the Group at the end of each reporting period, the impact on the Group's profit/loss after tax (and retained profits/accumulated losses) and other components of consolidated equity is estimated as an annualised impact on interest expense of such change in interest rates. The analysis is performed on the same basis for 2010.

(d) Currency risk

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

The Group has not entered into any forward exchange contract.

(e) Fair values

The carrying amounts of the Group's and the Company are financial instruments carried at cost or amortised cost is not materially different from their fair values as at 31 December 2011 and 2010 except as follows:

	2011		2010	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$'000	**$'000**	$'000	$'000
Convertible bond	**1,203,381**	**685,025**	1,368,839	1,385,134

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

33 COMMITMENTS

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

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Contracted for land and development costs in respect of property development activities	**1,138,122**	839,382	**–**	–

(b) At 31 December 2011, the total future minimum lease payments regarding properties under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Within 1 year	**306**	**243**	–	–
After 1 year but within 5 years	**7**	**41**	–	–
	313	**284**	–	–

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 2 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

34 CONTINGENT LIABILITIES

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

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

34 CONTINGENT LIABILITIES *(Continued)*

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

	2011 **$'000**	2010 $'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	**528,923**	392,732

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

35 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and the highest paid employees as disclosed in note 9, is as follows:

	2011 **$'000**	2010 $'000
Short-term employee benefits	**6,183**	5,311

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

(b) Loans from related parties

Mr. Chen is a director and major shareholder of the Group and is considered a related party of the Group. The loans from related parties are made from Mr. Chen and an entity controlled by Mr. Chen.

The loans from Mr. Chen, amounted to $24,000,000 that bear interest ranging from 18% to 20% per annum, are unsecured and repayable six months after the date of the respective drawdowns.

The loans from an entity controlled by Mr. Chen, amounted to $353,479,000 that bear interest ranging from 8% to 20% per annum, are unsecured and repayable six months after the date of the respective drawdowns.

35 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Convertible bond

During the year, the Company repurchased convertible bond with principal amount of $401,000,000 held by Mr. Chen at the face value of the convertible bond and the repurchase was settled by way of setting off the loan of RMB289,329,962 (equivalent to approximately $355,726,270) due from Mr. Chen to the Group and the remaining balance of $45,273,730 in cash. Details of the convertible bond repurchased and payable to Mr. Chen are disclosed in note 28.

(d) Other related party transactions

Details of the loan advanced to Mr. Chen are disclosed in note 19.

Other amounts due from/to related parties are set out in note 21 and 24.

Refer to Note 26(b) for guarantee received from Mr. Chen.

36 MAJOR NON-CASH TRANSACTIONS

As disclosed in note 19, convertible bond in the principal amount of $356,000,000 was offset against the loan to a director of RMB289,330,000 (equivalent to approximately $355,726,000) and the remaining balance in cash during the year.

(Expressed in Hong Kong dollars unless otherwise stated)

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting period beginning on or after
— Amendments to HKFRS 7, Financial instruments: Disclosures-Transfers of financial assets	1 July 2011
— Amendments to HKAS 12, Income taxes-Deferred tax: Recovery of underlying assets	1 January 2012
— Amendments to HKAS 1, Presentation of financial statements-Presentation of items of other comprehensive income	1 July 2012
— HKFRS 9, Financial instruments	1 January 2013
— HKFRS 10, Consolidated financial statements	1 January 2013
— HKFRS 11, Joint arrangements	1 January 2013
— HKFRS 12, Disclosure of interests in other entities	1 January 2013
— HKFRS 13, Fair value measurement	1 January 2013
— HKAS 27, Separate financial statements (2011)	1 January 2013
— HKAS 28, Investments in associates and joint ventures	1 January 2013
— Revised HKAS 19, Employee benefits	1 January 2013

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

Financial Summary

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Year ended 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000 (Restated)	**2011 HK$'000**
RESULTS					
Turnover	136,321	149,029	426,086	—	**—**
Profit/(loss) before taxation from continuing operations	83,953	(555,146)	146,546	(133,431)	**149,345**
Income tax (expense)/credit from continuing operations	(57,982)	25,009	(63,070)	15,969	**(17,626)**
Results of discontinued operations	—	—	—	37,682	**516**
Net gain on disposal of subsidiaries	—	—	—	—	**62,460**
Profit/(loss) for the year	25,971	(530,137)	83,476	(79,780)	**194,695**
Profit/(loss) attributable to equity shareholders of the Company	18,406	(503,523)	11,217	(102,911)	**185,411**
Non-controlling interests	7,565	(26,614)	72,259	23,131	**9,284**
Profit/(loss) for the year	25,971	(530,137)	83,476	(79,780)	**194,695**

	At 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011 HK$'000**
ASSETS AND LIABILITIES					
Total assets	766,003	3,997,214	4,648,574	5,703,955	**7,215,414**
Total liabilities	(408,665)	(3,772,422)	(4,372,374)	(5,293,577)	**6,751,326**
Net assets	357,338	224,792	276,200	410,378	**464,088**
Equity attributable to equity shareholders of the Company	294,388	135,942	116,908	222,331	**370,237**
Non-controlling interests	62,950	88,850	159,292	188,047	**93,851**
Total equity	357,338	224,792	276,200	410,378	**464,088**

1 MAJOR PROPERTIES UNDER DEVELOPMENT

Location	Intended use	stage of completion	Expected date of completion	Gross Site area (Sq m)	floor area (Sq m)	Group's interest (%)
Hengli City No. 128 Wusi Road Gulou District Fuzhou City, Fujian	Residential and Commercial	Under development	May 2012	24,982	174,869	95%
Hengli Financial Center No. 6 Guanfengting St. Gudong Street Gulou District Fuzhou City, Fujian	Commercial	Under development	Aug 2012	6,035	50,645	100%
Hengli Prosperity Center	Commercial	Under development	Oct 2013	6,875	56,757	100%

2 MAJOR INVESTMENT PROPERTIES UNDER DEVELOPMENT

Location	Intended use	floor area (Sq m)	Group's interest (%)
The Commercial Podium of Hengli City No. 128 Wusi Road Gulou District Fuzhou City, Fujian	Commercial	55,029	95%
Portion of the Carpark of Hengli City No. 128 Wusi Road Gulou District Fuzhou City, Fujian	Commercial	11,702	95%

3 MAJOR PROPERTIES HELD FOR OWN USE

Location	Existing use	Gross Floor area (sq m)	Group's interest (%)
Unit 3401, 34/F Tower Two Lippo Centre 89 Queensway Hong Kong	Office	157	100%