SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司

(Stock Code: 1207)

ANNUAL REPORT 2011

Contents

Introduction of the Group

SRE Group Limited ("the Company") and its subsidiaries ("the Group") are an integrated real estate developer specializing in property and land development business. The shares of the Company have been listed on the Hong Kong Exchange and Clearing Limited (the "HKEx") since 10 December 1999.

Geographically, Shanghai is the base for the Group's real estate development business which will gradually and continue to be extending into capitals of various provinces and regional hubs with strong economic development potentials. While we are mainly a developer for medium-to-high-end residential properties, we have been gradually building more commercial properties such as office buildings, hotels and shopping malls, aiming at becoming a fully integrated trans-regional real estate developer.

Properties developed by he Group under the brand names of "Oasis Garden", "Rich Gate", "Skyway" and "Albany" enjoy a good reputation in both onshore and offshore markets including Shanghai, Shenyang, Haikou, Wuxi, Chengdu and Hong Kong.

Our land development business focus on planning and developing large-scale new town projects in the suburbs of some of PRC's largest cities, with each current project covering total site area of around 36 million sq.m. We are currently engaged in three new town projects located in Shanghai, Wuxi and Shenyang.

Financial Summary

Summary of Results

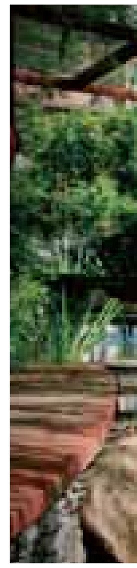
(Prepared according to accounting principles generally accepted in Hong Kong)

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
Turnover, net	**6,786**	6,289	2,831	3,740	3,350
Gross Profit	**1,867**	2,539	1,237	895	637
Profit before Taxation	**738**	1,531	1,525	1,677	1,670
Taxation	**(319)**	(815)	(507)	(893)	(642)
Profit after Taxation	**419**	716	1,018	784	1,028
Non-controlling Interests	**78**	(86)	(233)	(536)	(9)
Profit Attributable to owners of parent	**497**	630	785	248	1,019
Proposed Dividends	**–**	(105)	(159)	–	(96)
Earnings per share					
– Basic	**11.48 Cents**	17.00 Cents	23.71 Cents	8.59 Cents	41.17 Cents
– Diluted	**11.48 Cents**	16.39 Cents	22.90 Cents	8.34 Cents	40.12 Cents
Total Assets	**43,656**	40,742	34,674	21,307	19,622
Total Liabilities	**30,681**	29,415	23,366	13,434	13,039
Net Assets	**12,975**	11,327	11,308	7,873	6,583
Cash reserves	**2,521**	5,403	4,603	1,575	1,939
Shareholders' funds	**10,489**	8,545	8,192	6,473	5,800

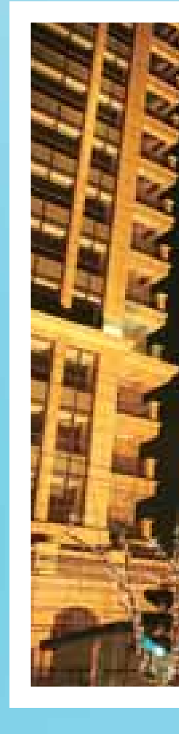
	Year ended 31 December				
	2011	2010	2009	2008	2007
Return on Equity (%)	**5%**	7%	10%	4%	18%
Current Ratio (times)	**1.82x**	1.75x	1.66x	1.65x	1.59x
Total Liabilities to Shareholders equity	**2.36x**	2.60x	2.07x	1.71x	1.98x
Net Debt to Shareholders' Funds Ratio (times)*	**2.68x**	2.81x	2.29x	1.83x	1.91x

* Net Debt to Shareholders' Funds Ratio = (Total Liabilities – Cash and Bank balances) / Shareholders' funds

Shanghai Project



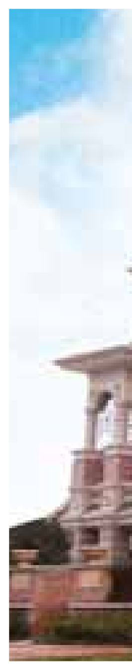
【Shanghai Project】




Shenyang Project



Jiaxing Project




Wuxi Project

Haikou Project




Chairman's Statement

Dear Shareholders,

*On behalf of the board of directors,
I would like to present the annual report
for the results of SRE Group Limited
for the year ended 31 December 2011 to you.*

Chairman's Statement

Business Review

In 2011, the Group's major projects up for sale were Cedar Villa Original, Lake Malaren Garden, Rich Gate SeaView and Central-Ring Centre in Shanghai; Haikou Bund Centre in Hainan; Wuxi Jiangnan Rich Gates in Jiangsu; Shenyang Yosemite Oasis Community and Albany Oasis Garden in Liaoning. From January to December 2011, the Group contracted a total amount of HKD2.756 billion, with gross floor area of approximately 154,675 square meters.

Project Company	**Sales Contracts Signed** *(HKDx1000)*	**Contractual Gross Area** *(m^2)*
Shenyang Albany Oasis Garden	587,865	57,824
Shanghai Cedar Villa Original	556,834	18,719
Shanghai Central-Ring Centre	497,062	14,339
Shanghai Lake Malaren Garden	300,741	8,160
Shenyang Yosemite Oasis Community	206,954	27,145
Shanghai Rich Gate SeaView	176,247	8,920
Wuxi Jiangnan Rich Gate	133,609	7,408
Haikou Bund Centre	83,479	3,642
Other Projects	213,020	8,518
Total	2,755,811	154,675

In 2011, the Group recorded a net turnover of HKD6.786 billion, an increase of 7.9% from HKD6.289 billion in 2010. Gross profit for 2011 amounted to approximately HKD1.867 billion, a decrease of 26.50% from HKD2.539 billion in 2010. Gross profit margin for 2011 was about 27.5% (2010: 40%).

Net turnover breakdown by activity:

Turnover	**2011 (HKDx1000)**	2010 (HKDx1000)
Sale of development properties	**5,731,745**	4,589,437
Revenue from land development	**837,100**	1,467,053
Hotel operations	**260,389**	283,656
Revenue from property leasing	**155,773**	137,031
Property management revenue	**131,641**	103,011
Golf operation	**70,766**	68,936
Revenue from construction of infrastructure for an intelligent network	**4,250**	9,114
Sale of network hardware and installation of intelligent home equipment	**900**	2,610
Other revenue	**6,992**	4,431
	7,199,556	6,665,279
Less: Business tax and surcharges	**(413,553)**	(376,505)
Total revenue	**6,786,003**	6,288,774

Chairman's Statement

Development Projects

Our main development projects include Rich Gate SeaView, Cedar Villa Original, Lake Malaren Garden, Albany Oasis Garden, Central-Ring Centre, Bairun Project, Lake Malaren Silicon Valley Project and Lake Malaren UHO Project in Shanghai; Shenyang Albany and Yosemite Oasis Community in Liaoning; Wuxi Jiangnan Rich Gates in Jiangsu; Haikou Bund Centre in Hainan; 香島花苑 and 碧水瀾灣 in Zhejiang and Chengdu Albany Oasis Garden.

The Group has four major commercial real estate projects: three in Shanghai and one in Shenyang. Benefited from the Shanghai World Expo, commercial real estate, particularly hotel operations in Shanghai, had experienced an unprecedented growth. Under the influence of the prevailing austerity measures, the suppressed housing market has nonetheless underscored the trend of increasing investment toward commercial real estate as the prospect of which becomes more promising. The stable development of commercial real estate will make an increasingly important contribution to our revenue.

Commercial Property	Location	Details
Shanghai Skyway Pullman Hotel	Huangpu District, Shanghai	654 rooms
Shanghai Rich Gate Retail shops	Huangpu District, Shanghai	Approx. 11,000 m^2
Oasis Central Ring Center	Putuo District, Shanghai	Approx. 89,000 m^2
Shenyang Rich Gate Shopping Mall	Financial Golden Corridor, Shenyang	Approx. 240,000 m^2

Land Infrastructure and Pre-development Activities

In January 2011, Golden Luodian Company, a subsidiary of the Company, sold the land use right through the successful auction of the land parcel (A1-3) located at Shanghai Luodian New Town by the Shanghai Municipal Bureau of Planning and Land Resources. The buyer was Sino-Ocean Land (Shanghai) Limited. The land parcel, with approximately 35,642 sq.m., was sold at RMB538 million (equivalent to HK$650 million). The land parcel has a plot ratio of 2.5 times and the average land price is therefore equivalent to RMB6,038 per sq.m..

Relocation for Land of Development Projects

Shanghai Albany

Phase I and II of Shanghai Albany enjoyed great selling. Relocation for the remaining phases is underway. As at the end of December 2011, with 5760 households and 132 units relocated, relocation was 71% completed, which created favorable conditions for the commencement of Phase III.

Bairun Project

For Bairun Project, as at the end of December 2011, with 262 households, 9 units and 8 enterprises relocated, relocation was 70% completed. This created favorable conditions for Phase II development of the project.

Shenyang Albany

For Shenyang Albany, as at the end of December 2011, with 1316 households (area: 83836m^2) and 13 enterprises (area: 3062m^2) relocated, relocation was 78% completed, which created favorable conditions for Phase II project.

Chairman's Statement

Construction Work

Adhering to the development plans and construction timelines formulated in early 2011, the Group and its subsidiary companies had been carrying out the respective development and construction projects in an orderly manner. Taking into account the actual situation and for each of the key areas including design and construction, each company set up thorough plans and controlling measures prior to commencement of works so that targets and quality requirements were clear. As quality management is concerned, emphasis is always on using the right technology, to be supplemented by stringent quality control procedures. With safety, quality and timelines in mind, we have been efficiently and effectively conducting our works in a practical manner, aiming at achieving all targets being set along these lines.

Rich Gate SeaView

Rich Gate SeaView passed the inspection in April 2011 and flats were then handed over to buyers. As at the end of 2011, the hand-over rate reached 95%. The project passed all relevant requirements for Triple A residential estates.

Lake Malaren UHO Project

At the end of December 2011, main structure and underground structure of Lake Malaren UHO Project successfully passed all inspections and construction of the sub-structure is underway.

Lake Malaren Silicon Valley Project

At the end of December 2011, main structures of Section-A were topped out and landscaping was completed. Site construction of Section-B had been basically finished, with construction of external walls and door and window works 80% completed.

Lake Malaren Garden

The project has successfully passed all inspections and 70% of the units were handed over to buyers at the end of December 2011.

Cedar Villa Original

For Section-B, all properties sold, after satisfactory inspection, had been handed over to buyers in December 2011. For Section-A, interior decoration works are underway.

Shenyang Albany

For Shenyang Albany Phase I the inspection was successfully passed in November 2011 and 77% of the buyers had completed the procedures for taking ownership of the purchased flats.

Haikou Bund Centre

4 Towers of Haikou Bund Centre Phase I had successfully passed the inspection and hand-overs were made in April 2011. The interior decoration works of Tower 1 of Phase I is underway. Westin Hotel has been progressing well and the construction of the first 7 floors above ground has been completed. The design plan of second phase is in the making, and the site has been completely levelled.

Chairman's Statement

Acquisitions and disposal

Acquisition of Further Interests in China New Town Development Company Limited ("CNTD")

In September 2011, Sinopower Investment Limited, a wholly-owned subsidiary of the Company, acquired in aggregate 262,000,000 CNTD Shares (equivalent to 6.72% of the total issued CNTD Shares) at an aggregate consideration of S$15,982,000 (equivalent to HK$99.30 million) through various on-market transactions on the SGX-ST.

The Group completed its acquisition of 7.5% equity interest in Liaoning High School Project

In November 2011, the Group,through Shenyang Luyi Hotel Management Ltd., a wholly owned subsidiary of the Company, acquired 7.5% of the equity interest of Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao") from 上海錦美建築裝潢有限公司, thereby increasing the Group's interest in Liaoning Gao Xiao and hence its development project, Shenyang Albany, from 90% to 97.5%.

Transfer of equity interest in Wuxi Yongqing Real Estate Development Co., Ltd.

In October 2011, a subsidiary of the Group, Wuxi Zhongqing Real Estate Development Co., Ltd, transferred its wholly-owned equity interest in Wuxi Yongqing Real Estate Development Co., Ltd. to an independent third party, 上海順富寬頻網絡工程有限公司, at a consideration of approximately RMB20 million (equivalent to HK$24.67 million).

Financing and Capital Market Activities

On 28 March 2011, SRE Investment Holding Limited ("SRE Investment") has completed the subscription of 700,000,000 Subscription Shares of the Company at the Subscription Price of HK$0.81 per Subscription Share.

In March 2011, Shanghai Bairun Real Estate Co., Ltd. entered into an agreement for a loan of RMB535 million (equivalent to HK$646 million) with Industrial and Commercial Bank of China Limited, Waitan Sub-Branch, Shanghai.

In May 2011, Lake Malaren Silicon Valley Project of Shanghai Golden Luodian Development Co. Ltd. entered into an agreement for a loan of RMB600 million (equivalent to HK$725 million) with China Minsheng Banking Corp., Ltd, Shanghai Branch.

In October 2011, Shanghai Shuo Cheng Real Estate Co. Ltd., entered into an agreement for a loan of RMB700 million (equivalent to HK$850 million) with Agricultural Bank of China Co., Ltd, Jing An Branch, Shanghai.

In October 2011, Wuxi Hongshan New Town Development Co., Ltd. entered into an agreement for a trusted loan of RMB751 million (equivalent to HK$910 million) with China Credit Trust Co., Ltd.

In November 2011, SRE Investment completed the subscription of 550,000,000 Convertible Notes of the Company, which were on the same day fully converted into shares of the Company at the Conversion Price of HK$1.00 per Conversion Share. Upon such conversion of the Convertible Notes, SRE Investment was interested in 52.26% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

Chairman's Statement

The Group's Awards

SRE GROUP LIMITED

Awarded "Top 100 China Real Estate Development Enterprises for 2011", "Top 20 Real Estate Development Enterprises of Eastern China 2011" and "The 8th China Real Estate Network Popularity Ranking – Shanghai Most Popular Branded Real Estate".

Rich Gate SeaView

Awarded "Shanghai 4-Highs Outstanding Estate, Energy and Land Saving 2011", Golden Prize of the 7th Session of the "Shanghai Outstanding Residence" and "3A Class Residential Qualification" authorized by Ministry of Housing and Urban-Rural Development.

Shanghai Skyway Pullman Hotel

Awarded official five-star rating by the China National Hotel Rating Committee.

Cedar Villa Original

Awarded "2011 China Villa Festival-Innovative Award for Chinese Classic Villa".

Shenyang Albany

Awarded "Shenyang Landscaping Sector – Quality Landscape 2011".

Chengdu Albany

Awarded "Golden Prize of Chengdu Real Estate of the Year – the 9th Session of Chengdu Real Estate Golden Hibiscus Cup 2011" and "Influence in the Western – Most Worth-purchasing Mansion of Chengdu High-end Property Ranking 2011".

Business Outlook

The State pressed ahead the implementation of the most stringent austerity measure in the property industry during 2011. Against the backdrop of "structural adjustment and price stabilization", purchase restrictions, credit controls as well as price restrictions, raising down payment ratio for second home purchases and the imposition of property tax in individual regions were seen from the beginning of the year. During the middle of the year, the government increased its investment and released more credits to ensure adequate land supply for and there being an adequate number of affordable housings being built. At the end of 2011, the State was determined to impose real estate regulation that could satisfy the general public in "political" sense. The 2012 policy adhered to the unswerving real estate control policy as always principally stressed. As the control measures deepen, China's real estate industry has been undergoing a paradigm change, which will unroll a new chapter for the real estate industry in China.

According to the 2011 National Economy and Social Development Statistics published by the China National Statistics Bureau, total investment in real estate development in 2011 amounted to RMB6.174 trillion, an increase of 27.9% over the previous year. Of this total, investment in residential building development accounted for RMB4.4308 trillion, an increase of 30.2%; investment in office building development accounted for RMB254.4 billion, an increase of 40.7%; investment in commercial space development accounted for RMB737.0 billion, an increase of 30.5%.

Chairman's Statement

In 2011, the investment in real estate development in Shanghai amounted to RMB217.031 billion, representing a year-on-year increase of 39.6%, while the investment in affordable houses amounted to RMB47.9 billion, representing a growth of 42.9% compared to that of the last year. A total area of 17.713 million m^2 of commodity properties were sold throughout the year, representing a drop of 13.8%, of which total area of commodity housing sold out amounted to 14.7372 million m^2, representing a decrease of 12.6%.

In 2012, the central government continues to strengthen real estate controls vigorously with on-going inhibitive policies such as purchase restrictions while ensuring the supply of affordable housings. Minor adjustments were made to the steady-cum-tightening monetary policy in 2011 and a stable and moderate monetary policy is expected in 2012. Under the macro environment of rapid economic growth and accelerating urbanization, being over-pessimistic does not align with overall pace of development of the real estate sector of China. Instead, being prudently optimistic is in concordance with the actual market conditions.

In 2012, the property industry will face formidable challenges. In this context, the Group will resolutely cling to its new five-year development strategy, and the entire Group has the tenacity and confidence to do well in this pillar industry, firmly gripping the solid foundation of urbanization being China's largest domestic demand, and the Group's belief that urbanization development is of primal importance for the development of low-carbon economy. Our strategy for the year will base primarily on cash, and secondarily on profits. We will not aimlessly pursuit expansion but will conduct all works in an orderly manner. We will accomplish new goals under the new system and the new requirements of the market economy.

In March 2012, the Office of National Development and Reform Commission issued the "Notice on the Third List of Pilot Towns for National Development and Reform", and Hongshan Sub-District, Hongshan, Wuxi where Wuxi Hongshan New Town Development Company Limited, a subsidiary of CNTD, is located is on the list. This will provide an additional impetus for the Group's development and construction of new towns.

In 2012, the Group will make timely adjustments to its strategies according to economic trends, increase the proportion of investment in commercial real estate development and in development projects in second- and third-tier or even third- and fourth-tier cities with development potential in China to lay a solid foundation for the Group's next five-year plan. As a business with social responsibility, the Group will further improve the operation and scientific management of projects under development, aiming at providing the customers with high quality properties and hence a better life.

Nearly 20 years have passed since its establishment and more than a decade since the Group's first listing. In the interim, the Group has developed into a comprehensive real estate group engaged in new town development and secondary land development. In 2010, CNTD, a subsidiary of the Group, successfully achieved its dual-listing in both Hong Kong and Singapore to develop a broader platform for the Group's and CNTD's future operations in the capital market, thus forming a sound basis for better participation in new town development in the days to come.

Shi Jian
Chairman

27 March 2012

Directors and Management

Directors

Executive Directors

Mr. Shi Jian, aged 58, is the Chairman of the Board as well as the founder of the Group. Mr. Shi is responsible for the formulation of the Group's development strategy. Mr. Shi served in the People's Liberation Army from 1970 to 1986. From 1986 to 1993, Mr. Shi was an administration manager of Shanghai Rainbow Hotel. From 1993 to 1995, he was the general manager of the Universal Mansion project. Mr. Shi has nearly 20 years' experience in property investment and corporate operation. Mr. Shi Jian is the chairman of the board of directors of China New Town Development Company Limited, ("CNTD") a subsidiary of the Company listed on the Singapore and Hong Kong Stock Exchange. Mr. Shi Jian is the spouse of Mrs. Si Xiao Dong, the Director of various companies within our Group. Mr. Shi Jian is the father of Mr. Shi Janson Bing, the Co-Chief Executive Officer and Executive Director of CNTD and the uncle of Mr. Shi Lizhou, the Executive Director of the Company. Mr. Shi is also the father-in-law of Ms. Zuo Xin, the Assistant President of CNTD. Mr. Shi is the controlling shareholder of the Company. He also sits on the boards of various companies within our Group.

Mr. Li Yao Min, aged 61, has ceased to be the Vice-Chairman of the Board but remian as an Executive Director with effect from 1 November 2011. He joined the Group in May 1993. From 1992 to 1993, Mr. Li worked for Shanghai Golden World Commercial Building Co., Ltd as general manager. Mr. Li has over 20 years' relevant management experience in construction, structure, planning and large scale real estate project development. Mr. Li serves as Co-Chairman and Chief Executive Officer since 1 July 2011 in CNTD. He also sits on the boards of various companies within our Group.

Mr. Yu Hai Sheng, aged 58, is the Co-Chairman of the Board and Chief Executive Officer of the Group. Mr. Yu obtained a Master of Business Administration from Shanghai University. Mr. Yu joined the Group in 1997. Mr. Yu had been manager of Shanghai Mechanical Engineering Company, factory manager of Shanghai Pioneer Mechanical Engineering Factory and chief of Industrial Planning Bureau of Shanghai Sports Commission. He has ample experience in the installation of electrical, mechanical and networking equipment and management. He also sits on the boards of various companies within our Group. Mr. Yu is the father of Mr. Yu Songmin, the Assistant President and Deputy Director of CNTD.

Mr. Jiang Xu Dong, aged 48, has been appointed as the Vice-Chairman of the Group since 1 November 2011 and remain as an Executive Director and Chief Operation Officer of the Group. Mr. Jiang graduated from Shanghai Tongji University in 1986 specializing in industrial and civil construction, and was awarded a MBA degree afterwards. He joined the Group in 1997. He was a department director of Shanghai Real Estate Administration Bureau between 1986 and 1997. Mr. Jiang has over 20 years' experience in property development and operation management.

Mr. Shi Pin Ren, aged 48, is an Executive Director of the Group. Mr. Shi graduated from the Shanghai TV University with a bachelor degree in finance, and is an economist. Mr. Shi joined the Group in March 2010 and was appointed as an Executive director in June 2010. Before joining the Company, Mr. Shi worked in the Agriculture Bank of China and had held various positions including head of the Chongming sub-branch and head of the Minhang sub-branch of Shanghai, and the general manager of the Real Estate Credit Department of the Shanghai branch. He has over 20 years experience in banking and administration.

Mr. Zhang Hong Fei, aged 35, was appointed as an Executive Director since 1 November 2011. He holds a master degree in economics from Shanghai University and a professional graduation certificate in industrial foreign trade from the Wuhan Institute of Technology (then known as the Wuhan Institute of Chemical Technology). Between 1996 and 1998, Mr. Zhang had been working in the office of external affairs of Sanmenxia Chemical Machinery Co., Ltd. Since joining the Group in 2001, Mr. Zhang had held various positions such as the deputy general manager and the general manager of the asset management department of the Group, and vice president of the Group. He currently acts as the general manager and/or chairman of the board of various property project companies of the Group. Mr. Zhang has over 10 years of experience in external affairs, asset management, property development and property operation.

Directors and Management

Mr. Shi Li Zhou, aged 29, was appointed as an Executive Director since 1 November 2011. He holds a master degree in global financial management from Northumbria University at Newcastle Upon Tyne, the United Kingdom and a bachelor degree in finance from Lancaster University, the United Kingdom. Mr. Shi has 3 years of experience working in the field of property development in the Company. He has been the co-general manager of Shanghai Zhufu Property Development Co., Ltd., a subsidiary of the Company, since June 2007 and has become the general manager in corporate finance of the Company since March 2010. He was also appointed as an assistant president, deputy director of CNTD from 30 November 2010 to 29 March 2012. He is also the co-general manager of the Group's Bairun Project in Shanghai and a director of Shanghai Lushan Real Estate Ltd., a subsidiary of the Company. Following Mr. Shi's appointment as an executive Director, he will continue to act as the co-general manager of Shanghai Zhufu Property Development Co., Ltd. and the co-general manager of Bairun Project in Shanghai. Mr. Shi is the nephew of Mr. Shi Jian, the chairman of the Board and he is also the cousin of Mr. Shi Janson Bing, the co-chief executive officer and an executive director of CNTD.

Non-executive Directors

Mr. Cheung Wing Yui, aged 62, is a Non-executive Director of the Company. Mr. Cheung has been a practicing lawyer in Hong Kong since 1979 and admitted as a solicitor in the United Kingdom and as an advocate and solicitor in Singapore. He is currently a consultant of Messrs. Woo, Kwan, Lee & Lo, Solicitors and notaries, and the Deputy Chairman of the Council of the Open University of Hong Kong. Mr. Cheung is a director of a number of listed companies in Hong Kong (including SmarTone Telecommunications Holdings Limited, Sunevision Holdings Limited, Tianjin Development Holdings Limited, Tai Sang Land Development Limited, Hop Hing Group Holdings Limited and Agile Property Holdings Limited) and retired as director of Taifook Securities Group Limited and Ching Hing (Holdings) Limited in 2007 and Ping An Insurance (Group) Company of China, Ltd in 2009.

Mr. Jin Bing Rong, aged 63, is a Non-executive Director of the Company. Mr. Jin graduated from Fudan University and obtained a master degree in international finance in 1997. Mr. Jin has over 20 years' experience in banking and was the former president of the Shanghai branch of the Agricultural Bank of China. Mr. Jin had been working with the Agricultural Bank of China since 1981 and had served as the president of its branches in Shanghai during his 20-plus year career with the bank.

Independent Non-executive Directors

Mr. Jiang Xie Fu, aged 69, is an Independent Non-executive Director of the Company. He was the Vice-Chairman of the Urban & Rural Construction and Environmental Protection Committee of Shanghai People's Congress Standing Committee from 2003 till 2008. He had been the Party Secretary of the Shanghai Municipal Housing, Land and Resource Administration Bureau. He obtained a Bachelor degree in Shanghai Normal University majoring in History.

Mr. E. Hock Yap, aged 56, is an Independent Non-executive Director of the Company. Mr. Yap graduated from Sheffield University with a bachelor degree in Chemical Engineering. He is a member of the Institute of Chartered Accountants in England. Mr. Yap has over 30 years experience in financial and accounting management, banking and investment.

Mr. Zhuo Fu Min, aged 60, was appointed as an Independent Non-Executive Director of the Company in November 2010. He was also a member of the audit committee and a member of the remuneration committee of the Company. Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983 and obtained a master degree in Economics from Fudan University in 1997. Between 1987 and 1995, Mr. Zhuo served senior positions including an office head and an officer assistant of the Shanghai Economic System Reform Committee. Between 1995 and 2002, Mr. Zhuo held various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the chief executive officer and the vice chairman of Shanghai Industrial Holdings Limited, a company listed on The Hong Kong Exchange and Clearing Limited (the "HKEx")(stock code: 363) and the chairman and an executive director of SIIC Medical Science and Technology (Group) Limited, a medical company. From 2002 to 2005, Mr. Zhuo was the chairman and the chief executive officer of Vertex China Investment Co., Ltd., a wholly owned subsidiary of Vertex Management Group which is a global venture capital management

Directors and Management

company. In 2005, Mr. Zhuo co-founded 科星創投基金 and has been appointed as the Chairman. Since 2008, Mr. Zhuo has been serving as a management partner of GGV Capital. Mr. Zhuo was previously an independent director of China Enterprise Company Limited, a company listed on the Shanghai Stock Exchange (stock code: 600675). Currently, he is a director of Daqo New Energy Corp., a company listed on the New York Stock Exchange (stock code: DQ) and an non-executive director of Besunyen Holdings Company Limited, a company listed on the HKEx (stock code: 926). He also serves as an independent non-executive director of Focus Media Holding Limited, a company listed on NASDAQ (stock code: FMCN) and of Shenyin Wanguo (H.K.) Limited, a company listed on the HKEx (stock code: 218).

Mr. Yuan Pu, aged 61, was appointed as an independent non-executive director of the Company with effect from 1 July 2011. Mr. Yuan is a senior economist. From 1970 to 1994, Mr. Yuan was a government official and had served several departments under the State Council. Positions he held during this period included the Vice Division Chief of the Comprehensive Production Department and the Division Chief of the Policies, Laws and Regulations Department of the Ministry of Chemical Industry of the PRC, the Division Chief of the Policies, Laws and Regulations Department of the Economic and Trade Office of the State Council and the Division Chief of the Research Office of the State Economic and Trade Commission. From 1995 to 1999, Mr. Yuan was employed as the Vice Director of the China National Tendering Centre of Mach. & Elec. Equipment. From 1999 to 2000, Mr. Yuan served as the Director General of China Coordination Center for Cooperation of SMEs with Foreign Countries and China Centre for Promotion of SME Development as well as the Executive Vice-President and Secretary-General of China International Cooperation Association of Small and Medium Enterprises.

Management Discussion and Analysis

Financial Review

Turnover and profit attributable to shareholders

In 2011, the Group recorded net revenue of approximately HK$6,786 million (2010: HK$6,289 million), which represents an increase by approximately 7.9% compared with that of 2010. Profit attributable to shareholders was approximately HK$497 million, a decrease of 21.11% compared with approximately HK$630 million in 2010.

Liquidity and Financial Resources

The Group's liquidity position remains stable. As at 31 December 2011, cash and bank balances amounted to approximately HK$2,521 million (2010: HK$5,403 million). Working capital (net current assets) of the Group as at 31 December 2011 amounted to approximately HK$13,986 million (2010: HK$12,648 million), an increase of 10.58% from previous year. Current ratio increased slightly to 1.82x (2010: 1.75x).

As at 31 December 2011, total liabilities to total equity decreased to 2.36x (2010: 2.60x). At the end of the financial period, the Group's gearing ratio was approximately 49% (2010: 40%), being the Group's net debt (interest-bearing bank and other borrowings, Guaranteed Senior Notes and liability components (host debts) of convertible bonds (exclusive of trade and other payables) minus cash and bank) over total capital (total equity and net debt).

Material Acquisition and Disposals of Subsidiaries and Associated Companies

Acquisition of Further Interests in China New Town Development Company Limited ("CNTD")

In September 2011, Sinopower Investment Limited, a wholly-owned subsidiary of the Company, acquired in aggregate 262,000,000 CNTD Shares (equivalent to 6.72% of the total issued CNTD Shares) at an aggregate consideration of S$15,982,000 (equivalent to HK$99.30 million) through various on-market transactions on the SGX-ST.

The Group completed its acquisition of 7.5% equity interest in Liaoning High School Project

In November 2011, the Group,through Shenyang Luyi Hotel Management Ltd., a wholly owned subsidiary of the Company, acquired 7.5% of the equity interest of Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao") from上海錦美建築裝潢有限公司, thereby increasing the Group's interest in Liaoning Gao Xiao Real Estate and hence its development project, Shenyang Albany, from 90% to 97.5%.

Transfer of equity interest in Wuxi Yongqing Real Estate Development Co., Ltd.

In October 2011, a subsidiary of the Group, Wuxi Zhongqing Real Estate Development Co., Ltd, transferred its wholly-owned equity interest in Wuxi Yongqing Real Estate Development Co., Ltd. to an independent third party, 上海順富寬頻網絡工程有限公司, at a consideration of approximately RMB20 million (equivalent to HK$24.67 million).

Management Discussion and Analysis

Employees

As at 31 December 2011, the Group retained 3,520 (2010: 3,599) people under its employ in Hong Kong and the PRC. Total staff costs of the Group, excluding directors' remuneration, for the year under review amounted to approximately HK$170 million (2010: HK$138.5 million). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of each individual employee.

Charges on Assets and Contingent Liabilities

At the the end of the financial period, total bank and other borrowings of approximately HK$13,705 million (2010: HK$11,642 million) were secured by pledge of the Group's assets including leasehold land, investment property, property, plant and equipment, properties held or under development for sale and equity interest in subsidiaries, details of which are set out in note 32 to the financial statements.

The Group provided guarantees in respect of the mortgage facilities granted by certain banks to the purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates of grant of the relevant mortgage loans and end when the purchasers pledge related properties certificates as security to the bank for the mortgate loans granted by the banks.

The Group did not incur any material losses during the financial year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The Directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty as the mortgage principals are normally below 70% of sales prices of the respective properties at date of the sales agreements, and therefore no provision has been made in connection with the guarantees.

Details of projects under development:

Project	Location	Land Use	GFA (sqm)	Expected Date of Completion	Completion Rate of Construction	Group's Equity Interest (%)
The Bund Center Haikou	No.18 Taihua Road, Longhua District, Haikou City, Hainan Province, The PRC	Residential Phase I	83,978	2012	95%	79%
		Hotel	45,458	2013	30%	79%
		Commercial Phase I	2,051	2011	100%	79%
		Residential Phase II	220,400	2014	0%	79%
		Commercial Phase II	19,540	2014	0%	79%
		Residential Phase III	197,640	2016	0%	79%
		Commercial Phase III	20,000	2016	0%	79%
		Residential Phase IV	100,000	2018	0%	79%
		Commercial Phase IV	30,250	2018	0%	79%
		Hotel & Hotel Phase IV	184,030	2018	0%	79%

Management Discussion and Analysis

Project	Location	Land Use	GFA (sqm)	Expected Date of Completion	Completion Rate of Construction	Group's Equity Interest (%)
Minhang Project	No. 3888, Kunyang Northern Road, Maqiao Town, Minhang District, Shanghai, The PRC	Residential	103,164	2014	0%	27.70%
Albany Oasis Garden	No. 699, Zhong Xing Road, Zhabei District, Shanghai, The PRC	Residential Phase III	158,800	2015	0%	100%
		Residential Phase IV	47,000	2018	0%	100%
		Commercials	40,000	2018	0%	100%
		Office	100,500	2018	0%	100%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road,Putuo District, Shangha, The PRC	Office	42,000	2012	30%	95.79%
Cedar Villa Original	Lane 88, Mei Fung Road, Baoshan District, Shanghai, The PRC	Residential	112,745	2012	80%	98.75%
Shengyang Albany	South Heping Road, Heping District, Shenyang City, Liaoning Province, The PRC	Residential Phase I	123,829	2011	100%	97.50%
		Commercial Phase I	4,429	2011	100%	97.50%
		Residential Phase II	119,820	2015	0%	97.50%
		Commercial Phase II	2,281	2015	0%	97.50%
		Residential Phase III	50,900	2015	0%	97.50%
		Residential Phase IV	16,618	2017	0%	97.50%
		Residential Phase V	160,940	2016	0%	97.50%
		Office/Commercial	465,354	2017	0%	97.50%

Management Discussion and Analysis

Project	Location	Land Use	GFA (sqm)	Expected Date of Completion	Completion Rate of Construction	Group's Equity Interest (%)
Jiang Nan Rich Gate Wuxi	Within Wuxi Hongshan New Town of CNTD	Residential	50,465	2012	80%	98.75%
Pudong Project	Yongfa Road, Pudong New District, Shanghai, The PRC	Residential	48,288	yet to be decided	0%	98.75%
Bairun Project	Lane 99, Baotun Road, Huangpu District, Shanghai, The PRC	Residential	28,645	2014	0%	50.36%
		Commercials	5,000	2014	0%	50.36%
		Facilities	7,000	2014	0%	50.36%
Rich Gate I (Qinhai Oasis Garden)	Daxing Road, Huangpu District, Shanghai, The PRC	Residential Phase I	70,693	yet to be decided	0%	100%
		Residential Phase II	30,297	yet to be decided	0%	100%
		Commercial Phase I	41,939	yet to be decided	0%	100%
		Commercial Phase II	10,800	yet to be decided	0%	100%
Shenyang Yosemite Oasis Community	the town of Lee Sang Lane, Dongling District, Shenyang City, Liaoning Province, The PRC	Town House Phase I	162,386	2013	75%	98.95%
		Town House Phase II	69,985	2010	100%	98.95%
		Residential Phase III	256,985	2013	0%	98.95%
Jiaxing Project	No.1, Linghu Road, Nanhu District, Jiaxing City, Zhejiang Province, The PRC	Residential and Commercial	97,905	2013	50%	98.96%
		Residential and Commercial	137,516	2013	10%	98.96%
Lake Malaren UHO	Luodian New Town, Baoshan District, Shanghai, the PRC	Residential and Commercial	39,317	2013	45%	44.70%
Lake Malaren Silicon Valley	Luodian New Town, Baoshan District, Shanghai, the PRC	Commercial Phase	97,000	2015	27%	44.70%

Management Discussion and Analysis

Project	Location	Land Use	GFA (sqm)	Expected Date of Completion	Completion Rate of Construction	Group's Equity Interest (%)
Jiangnan Richgate II	Within Wuxi Hongshan New Town of CNTD	Residential	83,055	2014	7%	55.38%
Chengdu Albany Oasis Garden	Sanguan Village, Hongguang Town in the Pi county of Chengdu	Residential	215,202	2013	14%	44.70%

Details of completed investment properties:

Project	Location	Land Use	GFA (sqm)	Group's Equity Interest (%)
Shanghai Rich Gate	Nos. 1 to 6 of Lane 222, Madang Road, Luwan District, Shanghai, The PRC	Retail	11,330	100%
Shenyang Rich Gate	No.118, Harbin Road, Shenhe District, Shenyang City, Liaoning Province, The PRC	Commercial	245,252	60%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shangha, The PRC	Retail	32,143	95.79%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shangha, The PRC	Car Park	57,045	95.79%
Unit 2605, 2606, 26(3A), 2803, 2806 and 28(3A) of Universal Mansion	No. 172 Yuyuan Road, Jing'An District, Shanghai, The PRC	Office	732	98%
Scandinavia Street, Shanghai, PRC	Luodian New Town, Baoshan District, Shanghai, the PRC	Retail	72,494	44.70%
Retail Street in Wuxi Project	Xinhong Road, Hongshan New Town, New District,Wuxi, Jiangsu Province, the PRC	Retail	12,162	55.38%
Shanghai supermarket shopping mall	Luodian New Town, Baoshan District, Shanghai, the PRC	Supermarket	21,356	44.70%

Management Discussion and Analysis

Details of hotels:

Project	Location	Land Use	GFA (sqm)	Group's Equity Interest (%)
Shanghai Skyway Pullman Hotel	No.15 Dapu Road, Luwan District, Shanghai, The PRC	Hotel	101,047	56%
Crowne Plaza Lake Malaren Shanghai Hotel	Luodian New Town, Baoshan District, Shanghai, the PRC	Hotel	38,240	44.70%

Details of the Land infrastructure under development for sale:

Project	Location	Site area (sqkm)	Land Available for sale (sqm)	Completion Rate of Construction	Group's Equity Interest (%)
Shanghai Luodian New Town	Located at Baoshan District, connected to downtown Shanghai by metroline #7	6.8	866,082	95.97%	44.70%
Wuxi Hongshan New Town	Located in Wuxi New District and adjacent to the high-tech industrial park, close proximity to the Wuxi city centre and Wuxi Airport	8.68	3,170,000	61.55%	55.38%
Shenyang Lixiang New Town	Located at Dongling District, close proximity to Shenyang city centre and adjacent to Shenyang Taoxian International Airport	20	11,840,000	45.42%	55.38%

Report of the Directors

The directors have pleasure in submitting the annual report together with the audited financial statements of SRE Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2011.

Principal Activities

The Group was mainly engaged in real estate development, large-scale new towns planning and development, property leasing and hotel operations in Mainland China during the year.

Turnover and profit before taxation of the Group are derived mainly from sale and presale of properties and development of land and construction of ancillary public facilities in the People's Republic of China.

Segmental Information

Details of the Group's turnover and profit by principal activity and geographical area for the year ended 31 December 2011 are set out in note 4 to the financial statements.

Results and Appropriations

Details of the Group's results for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 48. No interim dividend was recommended by the Board of Directors of the Company. No final dividend to the shareholders was proposed by the Company in respect of the year ended 31 December 2011(2010: HK$0.029 per share).

Bank Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 32 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and in note 31 to the financial statements, respectively.

Distributable Reserves

As computed in accordance with The Companies Act 1981 of Bermuda, no reserves of the Company available for cash distribution (2010: HK$124.8 million) as of 31 December 2011. The share premium account with balance of approximately HK$5,296 million (2010: HK$4,376 million) may be distributed in the form of fully paid bonus shares.

Pre-Emptive Rights

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

Report of the Directors

Purchase, Sale or Redemption of Listed Securities of the Company

1. Placing and Subscription of New Shares

On 28 March 2011, SRE Investment Holding Limited ("SRE Investment") has completed the subscription of 700,000,000 Subscription Shares of the Company at the Subscription Price of HK$0.81 per Subscription Share.

2. Issue and Conversion of 2% Coupon Convertible Bonds Due 2016

In November 2011, SRE Investment has completed the Convertible Note subscription of 550,000,000 Conversion Shares of the Company, which were on the same day fully converted into shares of the Company at the Conversion Price of HK$1.00 per Conversion Share. Upon such conversion of the Convertible note, SRE Investment will be interested in 52.26% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

Movements in Securities of CNTD

On 6 April 2011 and 22 December 2011, CNTD had allotted and issued 4,905,000 and 6,131,250 new ordinary shares to entitled persons who exercised the 3rd tranche and 4th tranche share options vested under the Management Grant adopted on 5 July 2007 respectively.

Fixed Assets and Investment Properties

Details of the movement in fixed assets and investment properties of the Group are set out in notes 16 and 17 respectively to the financial statements.

Related Party Transactions

Details of the Related Party Transactions of the Group for the year ended 31 December 2011 are set out in note 45 to the financial statements.

Report of the Directors

Directors

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

Executive Directors

Mr. Shi Jian
Mr. Li Yao Min
Mr. Yu Hai Sheng
Mr. Jiang Xu Dong
Mr. Shi Pin Ren
Mr. Yue Wai Leung, Stan (resigned on 1 July 2011)
Mr. Zhang Hong Fei (appointed on 1 November 2011)
Mr. Shi Li Zhou (appointed on 1 November 2011)

Non-executive Directors

Mr. Cheung Wing Yui
Mr. Jin Bing Rong

Independent Non-executive Directors

Mr. Jiang Xie Fu
Mr. E. Hock Yap
Mr. Zhuo Fu Min
Mr. Yuan Pu (appointed on 1 July 2011)

The Company had received confirmation from each of the independent non-executive directors of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the HKEx and considered all independent non-executive directors to be independent.

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Bye-laws of the Company, Mr. Shi Jian, Mr. Jiang Xu Dong, Mr. Cheung Wing Yui, Mr. E. Hock Yap, Mr. Zhang Hong Fei, Mr. Shi Li Zhou and Mr. Yuan Pu will retire at the forthcoming annual general meeting. All of these Directors, except for Mr. E. Hock Yap who will not offer himself for re-election, are eligible and will offer themselves for re-election.

Directors' Emoluments

Details of directors' emoluments are set out in note 10 to the financial statements.

Directors' Service Contracts

(a) Service contracts/appointment letters with the Company

Each of the following executive Directors has entered into service contracts with the Company and each of the following non-executive Directors and independent non-executive Directors has entered into appointment letters with the Company, the terms and conditions of which are summarized below:

Name of Director	Date of service contract/ appointment letter	Term	Prevailing fixed annual remuneration	Termination notice period or payment in lieu of notice
Executive Directors				
Shi Jian	2 June 2010	1 July 2010 to 30 June 2013	HK$2,000,000	6 months' written notice
Li Yao Min	2 June 2010	1 July 2010 to 30 June 2013	HK$1,500,000 and reduced to HK$1,000,000 with effect from 1 November 2011	6 months' written notice
Yu Hai Sheng	2 June 2010	1 July 2010 to 30 June 2013	HK$2,500,000	6 months' written notice
Jiang Xu Dong	2 June 2010	1 July 2010 to 30 June 2013	HK$2,000,000 and increased to HK$2,500,000 with effect from 1 November 2011	6 months' written notice
Shi Pin Ren	2 June 2010	2 June 2010 to 1 June 2013	HK$2,000,000	6 months' written notice
Zhang Hong Fei	28 October 2011	1 November 2011 to 31 October 2014	RMB480,000 plus HK$720,000	6 months' written notice
Shi Li Zhou	28 October 2011	1 November to 31 October 2014	RMB360,000 plus HK$600,000	6 months' written notice
Non-executive Directors				
Jin Bing Rong	2 June 2010	1 July 2010 to 30 June 2012	HK$330,000	1 month's written notice
Cheung Wing Yui	2 June 2010	1 July 2010 to 30 June 2012	HK$360,000	1 month's written notice

Report of the Directors

Name of Director	Date of service contract/ appointment letter	Term	Prevailing fixed annual remuneration	Termination notice period or payment in lieu of notice
Independent non-executive Directors				
Jiang Xie Fu	2 June 2010	1 July 2010 to 30 June 2012	HK$330,000	1 month's written notice
E. Hock Yap	2 June 2010	1 July 2010 to 30 June 2012	HK$330,000	1 month's written notice
Zhuo Fu Min	30 November 2010	30 November 2010 to 29 November 2012	HK$360,000	1 month's written notice
Yuan Pu	24 June 2011	1 July 2011 to 30 June 2013	HK$330,000	1 month's written notice

The remuneration of Mr. Shi Jian, Mr. Yu Hai Sheng, Mr. Jiang Xu Dong and Mr. Shi Pin Ren for the period between January to June 2012 have been reduced by a lump sum of HK$500,000, HK$500,000, HK$300,000 and HK$500,000 respectively. This decision was determined with reference to the Company's performance and profitability, as well as the remuneration benchmark in the industry and the prevailing market conditions.

The fixed annual remuneration of the executive Directors after the first anniversary of the term of the service agreement is to be determined by the Board or the remuneration committee of the Board (as the case may be). Each executive Director is also entitled to an annual management bonus under the relevant service contract, the amount of which is to be determined by the Board from time to time, provided that the aggregate management bonus payable to all executive Directors for a financial year shall not be more than 10% of the Company's net profit after taxation and minority interests as shown in the audited consolidated financial statements of the Company for the relevant year.

(b) Service contracts/appointment letters with CNTD

Mr Shi Jian and Mr Li Yao Min have also entered into service contracts with CNTD, the terms and conditions of which are summarized below:

Name of Director	Date of service contract/ appointment letter	Term	Prevailing fixed annual remuneration	Termination notice period or payment in lieu of notice
Shi Jian	7 October 2010	22 October 2010 to 21 October 2013	HK$1,000,000	6 months' written notice or payment in lieu of notice
Li Yao Min	7 October 2010	22 October 2010 to 21 October 2013	HK$2,000,000	6 months' written notice or payment in lieu of notice

Report of the Directors

The fixed annual remuneration of Mr Shi Jian and Mr Li Yao Min as referred to above is subject to review from time to time by the board of CNTD and the remuneration committee of CNTD. Each of Mr Shi Jian and Mr Li Yao Min is also entitled to a discretionary performance bonus as may be determined by the board of CNTD.

Save as disclosed above, as at 31 December 2011, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation).

Directors' and Chief Executives' Interests in Equity or Debt Securities

As at 31 December 2011, the interests and short positions of each Director and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules, to be notified to the Company and HKEx; or (iv) which were required to be disclosed in this circular pursuant to the requirements of the Takeovers Code, were as follows:

(i) Long position in Shares of the Company

Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	**Approximate percentage of shareholding**
Shi Jian	7,246,991	2,324 *(Note 1)*	2,590,127,604 *(Note 2)*	2,597,376,919	52.40%
Li Yao Min	5,172,324	–	–	5,172,324	0.10%
Yu Hai Sheng	6,236,091	–	–	6,236,091	0.13%
Zhuo Fu Min	–	140,000 *(Note 3)*	–	140,000	0.003%

Notes:

1. These Shares were held by Md. Si Xiao Dong, the spouse of Mr. Shi Jian.

2. These 2,590,127,604 Shares were held by SRE Investment Holding Limited ("SRE Investment"). As Mr. Shi Jian and his spouse, Md. Si Xiao Dong together beneficially own 63% of the issued share capital of SRE Investment, Mr. Shi is therefore taken to be interested in these 2,590,127,604 Shares.

3. These Shares were held by Md. He Pei Pei, the spouse of Mr. Zhuo Fu Min.

Report of the Directors

(ii) Long position in shares of CNTD

Name of Director	Personal interests	Family interests	Corporate interests	Total	Approximate percentage of shareholding
Shi Jian	–	–	2,658,781,817 *(Note)*	2,658,781,817	68.07%
Li Yao Min	4,147,500	–	–	4,147,500	0.11%

Note: Mr. Shi Jian is deemed to be interested in Sinopower Investment Limited's ("Sinopower") entire shareholding in the Company by virtue of the fact that he is a controlling shareholder of SRE through SRE Investment Holding Limited ("SRE Investment"). Mr. Shi Jian's spouse also has a negligible direct shareholding in SRE. At the beginning of the financial year, Sinopower held 2,396,781,817 ordinary shares and on 14 September 2011 had purchased 262,000,000 shares from OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P., Gordel Holdings Ltd., Goldman Sachs & Co. Profit Sharing Master Trust and OZ Select Master Fund, Ltd..

(iii) Long position in options granted pursuant to the Management Grant of CNTD

Name of Director	No. of shares exercisable under the Management Grant of CNTD	No. of shares awarded but not yet exercisable under the Management Grant of CNTD	Total	Approximate percentage of shareholding of CNTD
Li Yao Min	–	1,777,500	1,777,500	0.05%

Save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in any shares or underlying shares or interests in debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules to be notified to the Company and HKEx, or which were required to be disclosed in this circular pursuant to the requirements of the Takeovers Code.

Report of the Directors

Directors' Interest in Contracts

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Company's directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares

In November 2011, SRE Investment completed the subscription of 550,000,000 Convertible Notes of the Company, which were on the same day fully converted into shares of the Company at the Conversion Price of HK$1.00 per Conversion Share. Upon such conversion of the Convertible Notes, SRE Investment was interested in 52.26% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

In 2011, none of the directors had been granted any options or exercised any options of the Company.

Saved as disclosed in the section "Share option scheme" below, at no time during the year was the Company or 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 debt securities (including debentures) of, the Company or any other body corporate.

Substantial Shareholders' Interests

As at 31 December 2011, so far as is known to any Director or chief executives of the Company, the following persons, other than a Director or chief executives of the Company, had interests of the Company or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under the Section 336 of Part XV of the SFO:

Long positions and short positions in Shares

Name of Shareholder	Capacity	Number of issued ordinary shares held *(Note 1)*	Approximate percentage of shareholding
Si Xiao Dong	Beneficial owner, spouse and corporate interest	2,597,376,919 (L) *(Note 2)*	52.40%
SRE Investment	Beneficial owner	2,590,127,604 (L) *(Note 3)*	52.26%
Deutsche Bank Aktiengesellschaft	Beneficial owner and person having a security interest in shares	285,596,712 (L) 120,730,297 (S) 646,000 (P)	5.76% 2.43% 0.01%

Report of the Directors

Notes:

(1) "L" represents long positions in Shares, "S" represents short positions in Shares and "P" represents lending pool in Shares.

(2) These Shares comprised 2,324 Shares held by Md. Si Xiao Dong, 7,246,991 Shares held by her spouse – Mr. Shi Jian and 2,590,127,604 Shares which SRE Investment was interested in. Such 2,590,127,604 Shares comprised 2,440,127,604 Shares held by SRE Investment and the Lent Shares.

(3) These Shares comprised 2,440,127,604 shares held by SRE Investment and the Lent Shares.

Save as disclosed above, none of the Directors nor the chief executive of the Company was aware of any other person (other than a Director or chief executive of the Company) or corporation who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO.

Share Option Scheme

A share option scheme was approved in a special general meeting held on 23 May 2002. According to this share option scheme, the directors may, at their discretion at any time during the ten years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and will be determined according to the higher price of (i) the nominal value of the shares of the Company (ii) the average official closing price of the shares on the HKEx for the five trading days immediately preceding the relevant offer date and (iii) the official closing price of the shares on the HKEx on the relevant offer date. Options granted become vested immediately and are not conditional on employees' service period. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee and unless the Board shall otherwise resolve in relation to any option at the time of grant, such period of time should not exceed 3 years commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of such period or 11 November 2009, whichever is the earlier.

No share option of the Company was granted, exercised, cancelled or lapsed during the year ended 31 December 2011 and 2010 respectively.

Report of the Directors

CNTD's Management Stock Option Plan ("Management Grant")

Since CNTD was deemed as a subsidiary of the Company since 9 September 2009, CNTD's Management Grant was included in the consolidated financial statements of the Group. The detailed information of the Management Grant since it was launched is as follows:

On 5 July 2007, the Board of Directors of the CNTD passed a resolution to award a total of 380 CNTD shares (equivalent to 28,500 thousand CNTD shares after the CNTD's share split in 2007) to certain of the CNTD's directors and employees ("Entitled Persons"), including Mr. Li Yao Min, director of the Company, who was awarded 79 shares (equivalent to 5,925,000 shares after the share split), as an incentive for his continued service to CNTD in the following proportions:

	Number of CNTD shares allotted	
Entitled Person	**Before the CNTD share split**	**Equivalent to the numbers after the CNTD share split**
Li Yao Min	79	5,925,000
Yue Wai Leung, Stan	79	5,925,000
Yang Yong Gang	68	5,100,000
Gu Bi Ya	40	3,000,000
Cheng Wai Ho	40	3,000,000
Mao Yi Ping	33	2,475,000
Tai Kuo Lin	25	1,875,000
Ma Da Yu	10	750,000
Sun Xiao Meng	3	225,000
Zhang Qiong	3	225,000
Total	380	28,500,000

In accordance with the terms of the Management Grant, the shares are allotted and will vest as follows: (a) 10% at the end of the 12th month after the date of listing of CNTD on the Main Board of the SGX-ST; (b) 15% at the end of the 24th month after the date of listing of CNTD on the Main Board of the SGX-ST; (c) 20% at the end of the 36th month after the date of listing of CNTD on the Main Board of the SGX-ST; (d) 25% at the end of 48th month after the date of listing of CNTD on the Main Board of the SGX-ST; and (e) the remaining 30% at the end of the 60th month after the date of listing of CNTD on the Main Board of the SGX-ST.

The Management Grant is provided on the basis that the relevant Entitled Persons remain in service within CNTD on the vesting days and he/she has not submitted a notice of resignation at those dates. The exercise price is RMB8 per CNTD share (before the CNTD's share split in 2007, after the CNTD's share split, the exercise price is RMB8 per 75,000 CNTD shares). The Management Grant is accounted for as a compensation for services to be provided by the Entitled Persons in the periods of service (the "vesting periods") as specified above. Since the CNTD shares granted do not vest until the Entitled Persons complete their services in the vesting periods, CNTD recognises the expenses over the vesting periods.

Report of the Directors

CNTD's Management Grant – Fair value of stock options granted

The fair value of the equity-settled stock options was approximately RMB2.023 per CNTD share (after CNTD's share split in 2007) at the date of grant. There have been no cancellations or modifications to the Management Grant, and the Management Grant was not replaced as a result of the acquisition of CNTD on 9 September 2009. The fair value on 9 September 2009 was approximately RMB0.576 per share.

The fair value of the stock option was estimated using the binomial option pricing model. Since the exercise price of the equity-settled stock options is close to zero per share (after CNTD's share split in 2007), the single most important input to the valuation model is the price of the CNTD's shares, which were estimated to be approximately RMB2.023 per share (after CNTD's share split in 2007) at the date of grant, and was quoted at RMB0.576 per share (after CNTD's share split in 2007) on 9 September 2009.

Some of the Entitled Persons who have totally 43 CNTD shares (before CNTD share split) left CNTD till end of 31 December 2011, so their rights under the Management Grant were forfeited according to the terms of the Management Grant.

There have been no cancellations or modifications to any of Management Grant during the years ended 31 December 2011 and 2010.

CNTD's Management Grant – Movement in the year

The following table illustrates the number of and movements in the Management Grant during the year:

	2011 **Number of CNTD's shares** **(after the share split)**	2010 Number of CNTD's shares (after the share split)
Outstanding at the beginning of the year	**18,393,750**	24,772,500
Forfeited during the year	**–**	(2,250,000)
Exercised during the year	**(11,036,250)**	(4,128,750)
Outstanding at the end of the year	**7,357,500**	18,393,750
Exercisable at the end of the year	**–**	4,905,000

Share option expenses of approximately HK$6,340 thousand were recognised during the year.

Major Customers and Suppliers

Land infrastructure development revenue from the Group's share of proceeds of land sale by local authorities in Shanghai accounted for approximately 11% (2010: 22%) of the Group's revenue in the year ended 31 December 2011.

Report of the Directors

The Group's other customers are widely dispersed. Other than mentioned in previous paragraph, no revenue amounting to 10% or more of the Group's revenue was derived from sales to a single customer or a group of customers under common control for the years ended 31 December 2011 and 2010. During the year, less than 30% of the Group's revenue was attributable to the Group's five largest customer combined.

During the year, less than 30 per cent of the Group's purchases were attributable to the Group's five largest suppliers combined.

Donation

Charitable donation made by the Group during 2011 amounted to HK$91 thousand (2010: HK$22.2 million).

Directors' Compliance with the Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Specific enquiry has been made of all Directors, who have confirmed that they complied with required standard set out in the Model Code.

Public Float

According to the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has complied with the public float requirement under the Listing Rules.

Audit Committee

The Company established an audit committee on 12 November 2001 with terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee has five members comprising the two non-executive Directors and the three independent non-executive Directors. The audited annual financial report for the year ended 31 December 2011 has been reviewed by the Audit Committee.

Pension Scheme

Details of the Group's pension schemes are set out in note section of other employee benefits of Note 2.4 to the financial statements.

Auditors

The financial statements for the years ended 31 December 2007, 2008, 2009, 2010 and 2011 have been audited by Messrs. Ernst & Young. A resolution for their re-appointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the board
Shi Jian
Chairman

Hong Kong, 27 March 2012

Corporate Governance Report

In April 2005, the Company adopted its own code on corporate governance practices which incorporates all the code provisions in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Throughout the year, the Company complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 except for Code provisions E.1.2, which stipulates that the chairman of the board should attend the annual general meeting. The Chairman of the Board of Directors did not attend the annual general meeting for the year 2010 due to other business commitment.

The Board and senior management are committed to maintain a high standard of corporate governance which provides a framework and solid foundation for achieving a high standard of accountability and transparency.

Throughout the year ended 31 December 2011, the Company has complied with the board's practices and procedures as set out in the Listing Rules.

The Board has put in place a proper corporate governance structure in the Company and is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. Under the Board, there are 3 subcommittees, namely Audit Committee, Remuneration Committee and Nomination Committee, with the Nomination Committee being set up on 27 March 2012. These committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.

During the year, the Board complies at all times with the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors and one of them have appropriate professional qualifications or accounting or related financial management expertise.

The number of full Board and Committee meetings attended by each Director during the year are as follows:

	Full Board *(Note 1)*	**Audit Committee** *(Note 1)*	**Remuneration Committee** *(Note 1)*
Executive Director			
Shi Jian	3(4)		
Li Yao Min	4(4)		
Yu Hai Sheng	4(4)		
Jiang Xu Dong	4(4)		
Yue Wai Leung, Stan *(Note 2)*	2(2)		
Shi Pin Ren	3(4)		
Zhang Hong Fei *(Note 3)*	0(0)		
Shi Li Zhou *(Note 3)*	0(0)		
Non-executive Director			
Cheung Wing Yui	4(4)	2(2)	1(1)
Jin Bing Rong	3(4)	1(2)	
Independent non-executive Director			
Jiang Xie Fu	4(4)	2(2)	
E Hock Yap	4(4)	2(2)	1(1)
Zhuo Fu Min	4(4)	2(2)	1(1)
Yuan Pu *(Note 3)*	1(2)		

Note:

1. Number of meetings attended (number of meetings held)
2. Mr. Yue Wai Leung, Stan resigned on 1 July 2011.
3. Mr. Zhang Hong Fei, Mr. Shi Li Zhou and Mr. Yuan Pu were appointed on 1 November 2011, 1 November 2011 and 1 July 2011 respectively.

Corporate Governance Report

Board Practices

As at 31 December 2011, the Board comprises thirteen directors of the Company (the "Directors") including the executive directors of the Company, the independent non-executive directors and non-executive directors of the Company. Save as disclosed in the section "Directors and Management" on pages 23 to 25, there is no financial, business, family or other material/relevant relationship amongst the Directors.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

Board papers are circulated and the Company Secretary attends all regular board meetings to advise on corporate governance and statutory compliance when necessary. In addition, the Company has maintained a procedure for Directors to seek independent professional advice in appropriate circumstances.

Remuneration Committee

According to the Code, the Company has set up a remuneration committee with a majority of the members thereof being independent non-executive directors. The remuneration committee comprises the majority of Independent Non-executive Directors of the Company, and schedules to meet at least once a year. It is chaired by Mr. E. Hock Yap and comprises two other members, namely Mr. Zhuo Fu Min and Mr. Cheung Wing Yui. All remuneration committee members, with the exception of Mr. Cheung Wing Yui, are Independent Non-executive Directors. The quorum necessary for the transaction of business is two.

The principal functions of the remuneration committee include: (1) to review and determine specific remuneration packages for each Executive Director and senior management by reference to corporate goals and objectives resolved by the Board from time to time; and (2) to review the share option scheme of the Company.

Audit Committee

The Company established an audit committee on 12 November, 2001. The major duties of the Audit Committee include:

- to consider and recommend the appointment, re-appointment and removal of external auditor;
- to approve the remuneration and terms of engagement of external auditor, any questions of resignation or dismissal of that auditor;
- to review and monitor external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services and to make recommendation of any measures for improvements to be taken;
- to review the interim and annual financial statements and the quarterly, interim and annual reports before submission to the Board;
- to review the Group's financial controls, internal control and risk management systems and ensure that the management has discharged its duty to have an effective internal control system;
- to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- to review and consider the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget.

Corporate Governance Report

- to consider any significant or unusual items that are, or may need to be, reflected in reports and accounts and must give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditors;

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

- to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response and to ensure that the Board will provide a timely response to the issues raised; and

- to review the Group's financial and accounting policies and practices.

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 to and assistance from the management and reasonable resources to discharge its duties properly. At least once annually, the audit committee will meet the external auditors without the presence of the management.

The audit committee had met two times to review the interim and annual results of the Group during the year ended 31 December 2011.

Nomination Committee

The Company has established a nomination committee (the "Nomination Committee") on 27 March 2012. The Nomination Committee shall consist of not less than three members and a majority of the Members shall be independent non-executive directors ("INEDs", each an "INED") of the Company. The Chairman of the Nomination Committee shall be appointed by the Board and shall be the Chairman of the Board or an INED. The members of the Nomination Committee shall comprise such directors of the Company appointed by the Board. The Board has appointed Mr. Shi Jian, Mr. Yuan Pu and Mr. Zhuo Fu Min as members of the Nomination Committee. Mr. Shi Jian has been appointed as the Chairman of the Nomination Committee.

The major duties of the Nomination Committee include:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on selection of individual nominated for directorships;

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

- to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive; and

- to determine the policy for nomination of directors.

Corporate Governance Report

Directors' responsibilities for the Financial Statements

The responsibility of the Directors is to prepare the financial statements, while the responsibility of the auditors is to express an opinion on the Group consolidated financial statements based on their audit, particulars please refer to the "Independent Auditors' Report" section of this report. The Board should ensure such financial statements should give a true and fair view of the state of affairs of the Group and of the results and cash flows for the relevant financial period. In regard of this, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the Financial Statements on a going concern basis. Besides, the Directors are also responsible for ensuring that the Group operates an efficient financial reporting system, keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Group has employed sufficient qualified staff to assist the preparation of financial statements.

Internal Control and Risk Management

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

Auditors' Remuneration

During the year, the auditors of the Company, Messrs. Ernst & Young, charged RMB7,730 thousand (equivalent to HK$9,337 thousand) including RMB3,550 thousand for CNTD's consolidated financial statements for audit services.

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. Having made specific enquiry, all directors have complied with the required standard set out in the Model Code throughout the year of 2011.

Investor relations and Shareholders' Right

The Company uses a number of formal communications channels to account to shareholders and investors for the performance of the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the website of the Company; (iv) the Company's website offering communication channel between the Company and its shareholders and investors; and (v) the Company's share registrars in Hong Kong serving the shareholders respecting all share registration matters.

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to shareholders in a timely manner and on a regular basis through the publication of interim and annual reports and/or dispatching circular, notices, and other announcements.

Corporate Information

Board of Directors

Shi Jian *(Chairman)*
Li Yao Min
Yu Hai Sheng *(Co-Chairman & Chief Executive Officer)*
Jiang Xu Dong *(Vice-Chairman & Chief Operation Officer)*
Shi Pin Ren
Zhang Hong Fei
Shi Li Zhou
Cheung Wing Yui*
Jin Bing Rong *
Jiang Xie Fu**
E. Hock Yap**
Zhuo Fu Min**
Yuan Pu**

* Non-executive Directors
** Independent Non-executive Directors

Authorized Representatives

Shi Jian
Li Yao Min

Company Secretary

Hui Sze Wai, Sylvie

Legal Adviser

Woo, Kwan, Lee & Lo

Auditor

Ernst & Young

Principal Bankers

Hong Kong: CITIC Bank International Limited
The Agricultural Bank of China

PRC: The Agricultural Bank of China
The Industrial and Commercial Bank of China
The Bank of China
Shanghai Pudong Development Bank
China Minsheng Bank

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong Office

Room 2501, 25th Floor, Office Tower, Convention Plaza,
1 Harbour Road, Wanchai, Hong Kong.

Principal Registrar and Transfer Office

Butterfield Corporate Services Ltd
Rosebank Centre
11 Bermudiana Road
Pembroke, Bermuda

Hong Kong Branch Registrar and Transfer Office

Tricor Tengis Limited
Share Registration
26/F, Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

Stock Code

1207

Internet Web Site

www.sre.com.cn

E-mail

general@sregroup.com.hk

Independent Auditors' Report

To the shareholders of SRE Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of SRE Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 50 to 160, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our 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 auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong
27 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	2011	2010
Revenue	5	**6,786,003**	6,288,774
Cost of sales	7	**(4,919,236)**	(3,749,581)
Gross profit		**1,866,767**	2,539,193
Other losses – net	6	**(90,986)**	(188,249)
Selling and marketing costs	7	**(276,114)**	(169,542)
Administrative expenses	7	**(383,267)**	(434,660)
Operating profit		**1,116,400**	1,746,742
Finance income	8	**148,028**	71,317
Finance costs	9	**(531,994)**	(312,946)
Finance costs – net		**(383,966)**	(241,629)
Share of (losses)/profits of:			
Jointly-controlled entities		**(1,076)**	–
Associates		**6,845**	25,459
Profit before tax		**738,203**	1,530,572
Income tax expense	12	**(319,204)**	(815,083)
Profit for the year		**418,999**	715,489
Other comprehensive income			
Exchange differences on translation of financial statements into presentation currency		**587,590**	383,775
Other comprehensive income for the year, net of tax		**587,590**	383,775
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,006,589**	1,099,264
Profit attributable to:			
Owners of the parent		**496,707**	629,652
Non-controlling interests		**(77,708)**	85,837
		418,999	715,489
Total comprehensive income attributable to:			
Owners of the parent	13	**955,351**	915,133
Non-controlling interests		**51,238**	184,131
		1,006,589	1,099,264
Earnings per share attributable to ordinary equity holders of the parent	15		
– Basic		**HK$11.48cents**	HK$17.00cents
– Diluted		**HK$11.48cents**	HK$16.39cents

Details of the dividends paid and proposed are disclosed in Note 14 to the financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

Statements of Financial Position

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	Group 2011	Group 2010	Company 2011	Company 2010
ASSETS					
Non-current assets					
Property, plant and equipment	16	**3,000,131**	2,627,299	**2,147**	2,712
Completed investment properties	17	**6,604,711**	6,624,338	**–**	–
Investment properties under construction	17	**123,350**	111,646	**–**	–
Prepaid land lease payments	18	**507,906**	399,796	**–**	–
Goodwill	19	**648,558**	671,979	**–**	–
Investments in subsidiaries	20(a)	**–**	–	**5,403,327**	5,148,045
Advances to subsidiaries	20(b)	**–**	–	**2,788,543**	2,153,125
Investments in jointly-controlled entities	21	**48,241**	–	**–**	–
Investments in associates	22(a)	**77,372**	72,182	**–**	–
Derivative financial asset	37	**54,027**	55,894	**–**	–
Deferred tax assets	35	**604,208**	432,186	**–**	–
Non-current trade receivables	28	**86,225**	109,598	**–**	–
Non-current prepayments	26	**821,086**	–	**–**	–
Other non-current assets	23	**58,561**	57,974	**–**	–
		12,634,376	11,162,892	**8,194,017**	7,303,882
Current assets					
Prepaid land lease payments	18	**12,418,981**	11,017,446	**–**	–
Properties held or under development for sale	24	**8,095,259**	6,124,508	**–**	–
Land development for sale	25	**6,366,044**	4,416,924	**–**	–
Inventories		**18,234**	29,759	**–**	–
Dividends receivable from subsidiaries		**–**	–	**929,938**	886,004
Amounts due from associates	22(b)	**304**	8,113	**–**	–
Prepayments and other current assets	26	**372,213**	671,331	**3,293**	3,117
Other receivables	27	**945,266**	1,186,348	**–**	–
Trade receivables	28	**101,948**	607,865	**–**	–
Prepaid income tax		**181,805**	113,854	**–**	–
Cash and bank balances	29	**2,521,487**	5,402,966	**69,320**	158,162
		31,021,541	29,579,114	**1,002,551**	1,047,283
Total assets		**43,655,917**	40,742,006	**9,196,568**	8,351,165

Statements of Financial Position

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

		Group		Company	
	Notes	**2011**	2010	**2011**	2010
EQUITY AND LIABILITIES					
EQUITY					
Issued capital and premium	30	**5,791,714**	4,736,489	**5,791,714**	4,736,489
Other reserves	31	**1,689,923**	1,142,493	**1,227,993**	909,129
Retained profits/(accumulated loss)	31	**3,006,887**	2,665,801	**(42,545)**	124,762
Equity attributable to owners of the parent		**10,488,524**	8,544,783	**6,977,162**	5,770,380
Non-controlling interests		**2,485,979**	2,782,378	**–**	–
Total equity		**12,974,503**	11,327,161	**6,977,162**	5,770,380
LIABILITIES					
Non-current liabilities					
Interest-bearing bank and other borrowings	32	**10,200,708**	8,863,028	**–**	171,548
Convertible bonds – host debts	36	**–**	354,548	**–**	354,548
Guaranteed senior notes	33	**559,646**	557,322	**559,646**	557,322
Deferred income from sale of golf club membership	34	**643,746**	632,478	**–**	–
Deferred tax liabilities	35	**2,241,957**	2,076,251	**–**	–
		13,646,057	12,483,627	**559,646**	1,083,418
Current liabilities					
Interest-bearing bank and other borrowings	32	**3,763,889**	3,169,554	**1,124,880**	980,454
Convertible bonds – host debts	36	**515,814**	–	**515,814**	–
Advances received from the pre-sale of properties under development	38	**2,565,079**	4,546,137	**–**	–
Trade payables	39	**5,259,024**	3,358,631	**–**	–
Other payables and accruals	40	**2,001,353**	2,421,148	**19,066**	516,913
Current income tax liabilities		**2,216,346**	2,323,911	**–**	–
Deferred income arising from land development	34	**713,852**	1,111,837	**–**	–
		17,035,357	16,931,218	**1,659,760**	1,497,367
Total liabilities		**30,681,414**	29,414,845	**2,219,406**	2,580,785
Total equity and liabilities		**43,655,917**	40,742,006	**9,196,568**	8,351,165
Net current assets/(liabilities)		**13,986,184**	12,647,896	**(657,209)**	(450,084)
Total assets less current liabilities		**26,620,560**	23,810,788	**7,536,808**	6,853,798

The accompanying notes are an integral part of these consolidated financial statements.

Shi Jian
Chairman

Yu Hai Sheng
Co-Chairman and Chief Executive Officer

Consolidated Statement of Changes in Equity

Year ended 31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Attributable to owners of the parent										
	Issued capital and premium (Note 30)	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Equity component of convertible bonds	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2011	4,736,489	2,268	248	259,266	1,019,873	(318,523)	179,361	2,665,801	8,544,783	2,782,378	11,327,161
Total comprehensive income for the year	–	–	–	–	458,644	–	–	496,707	955,351	51,238	1,006,589
Revaluation reserve transfer to retained profits upon sale of properties	–	(1,057)	–	–	–	–	–	1,057	–	–	–
Appropriation from retained profits	–	–	–	31,865	–	–	–	(31,865)	–	–	–
Issuance of new shares	562,487	–	–	–	–	–	–	–	562,487	–	562,487
Equity-settled share options to management of a subsidiary	–	–	–	–	–	4,323	–	–	4,323	2,017	6,340
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	25,982	25,982
Acquisition of non-controlling interests	–	–	–	–	–	43,409	–	–	43,409	(346,793)	(303,384)
Fair value of capital contribution from the controlling shareholder resulting from its subscription of a convertible bond ("CB5") (Note 36(b))	–	–	–	–	–	10,246	–	–	10,246	–	10,246
Issuance of shares upon conversion of convertible bonds ("CB5") (Note 36(b))	429,448	–	–	–	–	–	–	–	429,448	–	429,448
Final 2010 dividend declared	63,290	–	–	–	–	–	–	(124,813)	(61,523)	–	(61,523)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(28,843)	(28,843)
At 31 December 2011	5,791,714	1,211*	248*	291,131*	1,478,517*	(260,545)*	179,361*	3,006,887	10,488,524	2,485,979	12,974,503

Consolidated Statement of Changes in Equity

Year ended 31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Attributable to owners of the parent										
	Issued capital and premium (Note 30)	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Equity component of convertible bonds	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2010	4,736,489	6,498	248	215,706	734,392	84,997	179,361	2,234,050	8,191,741	3,115,939	11,307,680
Total comprehensive income for the year	–	–	–	–	285,481	–	–	629,652	915,133	184,131	1,099,264
Revaluation reserve transfer to retained profits upon sale of properties	–	(4,230)	–	–	–	–	–	4,230	–	–	–
Appropriation from retained profits	–	–	–	43,560	–	–	–	(43,560)	–	–	–
Equity-settled share options to management of a subsidiary	–	–	–	–	–	3,954	–	–	3,954	2,446	6,400
Changes due to decrease in equity interests in a subsidiary	–	–	–	–	–	(7,933)	–	–	(7,933)	7,933	–
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	154,456	154,456
Acquisition of non-controlling interests	–	–	–	–	–	(399,541)	–	–	(399,541)	(639,013)	(1,038,554)
Final 2009 dividend declared	–	–	–	–	–	–	–	(158,571)	(158,571)	–	(158,571)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(43,514)	(43,514)
At 31 December 2010	4,736,489	2,268*	248*	259,266*	1,019,873*	(318,523)*	179,361*	2,665,801	8,544,783	2,782,378	11,327,161

* These reserve accounts comprised the consolidated reserves of HK$1,689,923 thousand (2010: HK$1,142,493 thousand) in the consolidated statement of financial position.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	**2011**	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	41	**(1,907,041)**	(1,350,070)
Interest paid		**(924,124)**	(668,171)
Income tax paid		**(611,065)**	(150,535)
Net cash flows used in operating activities		**(3,442,230)**	(2,168,776)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(792,893)**	(196,644)
Proceeds from disposal of property, plant and equipment		**4,957**	4,349
Payments for investment properties		**(96,158)**	(149,376)
Payments for prepaid land lease payments		**–**	(266)
Acquisition of subsidiaries, net of cash acquired		**(8,819)**	(223,685)
Investments in jointly-controlled entities		**(48,315)**	–
Investment in an associate		**(2,748)**	–
Disposal of a subsidiary	44	**22,546**	300,000
Decrease/(increase) in time deposits with original maturity of over three months		**268,567**	(265,551)
Dividends received from associates		**16,071**	36,443
Interest received		**51,249**	30,111
Net cash flows used in investing activities		**(585,543)**	(464,619)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of convertible bonds		**546,531**	–
Proceeds from issuance of new shares		**567,000**	–
Share issue expenses		**(4,513)**	–
Payments of expenses incurred for the listing of existing shares of a subsidiary		**(5,015)**	(32,046)
Amounts received from sale of treasury shares of a subsidiary		**–**	30,676
Cash received upon exercise of management share options granted under Management Grant of a subsidiary		**2**	–
Acquisition of non-controlling interest and related derivative financial asset		**(802,213)**	(662,698)
Prepayments for acquisition of equity interest of a subsidiary from a non-controlling shareholder		**(192,000)**	–
Increase in pledged bank deposits		**(15,402)**	(971,369)
Decrease in restricted deposits in relation to bank borrowings		**3,962**	7,390
Proceeds from short-term borrowings		**329,345**	329,885
Repayments of short-term borrowings		**(129,745)**	(90,857)
Proceeds from long-term borrowings		**3,394,976**	8,008,926
Repayments of long-term borrowings		**(2,268,245)**	(4,215,693)
Cash received from the capital injection from non-controlling shareholders of subsidiaries		**25,982**	154,456
Net cash paid on redemption of guaranteed senior notes		**–**	(103,734)
Dividends paid to non-controlling shareholders of subsidiaries		**(28,843)**	(44,664)
Dividends paid to the Company's shareholders	14	**(61,523)**	(158,571)
Net cash flows from financing activities		**1,360,299**	2,251,701
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,667,474)**	(381,694)
Cash and cash equivalents at beginning of year		**3,887,304**	4,134,112
Effect of foreign exchange rate changes, net		**136,165**	134,886
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	**1,355,995**	3,887,304

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

1. CORPORATE INFORMATION

SRE Group Limited (the "Company") was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Bermuda Companies Act 1981. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on the Hong Kong Exchange and Clearing Limited (the "HKEx"), the Company became the ultimate holding company of the other companies comprising the Group on 12 November 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30 November 1999. The shares of the Company were listed on the HKEx on 10 December 1999. The principal place of business of the Company is located at Room 2501, 25th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong.

The Company and its subsidiaries (collectively referred to as the "Group") were mainly engaged in real estate development, large-scale new towns planning and development, property leasing and hotel operations in Mainland China during the year.

In the opinion of the Directors, as at 31 December 2011, the Company's parent company is SRE Investment Holding Limited, which holds 52.26% of the Company's shares (34.64% as at 31 December 2010). The remaining 47.74% of the shares are held by various different shareholders.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for completed investment properties, investment properties under construction and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity, its ability to maintain adequate cash inflow from operations and financing to meet its financial obligations as and when they fall due, and believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in deficit balance.

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Operating cycle

The operating cycle of the Group is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Due to the nature of the Group's business, the Group's normal operating cycle is longer than 12 months. The Group's current assets include assets (such as properties held or under development for sale and land infrastructure under development for sale, etc.) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the end of the reporting period.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except for the following new and revised HKFRSs the Group adopted for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

The adoption of the new and revised HKFRSs has had no significant effect on these financial statements.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Currently, the Group expects to adopt them when they become effective.

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of financial Assets [1]
HKFRS 7 Amendments	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 Amendments	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income[3]
HKAS 12 Amendment	Amendment to HKAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 Amendments	Amendments to IAS 32 Financial Instruments Presentation – Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that may significantly affect the Group is as follows:

HKFRS 9 as issued reflects the first phase of the project on the replacement of HKAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in HKAS 39. In subsequent phases of the project, hedge accounting and impairment will be addressed. The Group will quantify the effect of adoption of the first phase of HKFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 Consolidated and Separate Financial Statements, HKAS 31 Interests in Joint Ventures and HKAS 28 Investments in Associates. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 Income Taxes-Recovery of Revalued Non-Depreciable Assets that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Jointly-controlled entities

The Group's investments in its jointly-controlled entities are accounted for using the equity method. A jointly-controlled entity is an entity that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

Under the equity method, the investments in jointly-controlled entities are stated in the statement of financial position at the Group's share of net assets, less any impairment losses. Goodwill, if any, relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

The statement of comprehensive income reflects the share of the results of operations of the jointly-controlled entities. Where there has been a change recognised directly in the equity of the jointly-controlled entities, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the jointly-controlled entities are eliminated to the extent of the interest in the jointly-controlled entities.

The Group's share of profit or loss of jointly-controlled entities is shown on the face of the consolidated statement of comprehensive income. This is the profit after tax attributable to equity holders of the jointly-controlled entities. The financial statements of the jointly-controlled entities are prepared for the same reporting period as the investor. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of joint control, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former jointly-controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post acquisition results and reserves of associates is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, properties held or under development for sale, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of comprehensive income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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); and

(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).

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Hotel buildings	Shorter of 40 years and the remaining terms of the leases, which range from 30 to 40 years
Other buildings	20 years
Golf operational assets	Golf course between 40 and 50 years, club buildings of 30 years, club equipment of 10 years, club fixtures and fittings of 5 years
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets
Furniture, fitting, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met and it is accounted for as a finance lease. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of comprehensive income in the year of the retirement or disposal.

Investment properties under construction are stated at fair value with changes in fair values recognised in profit or loss.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of comprehensive income.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables and derivative financial instruments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other gains in the statement of comprehensive income. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables or available-for-sale financial assets depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in cost of sales or other losses for receivables.

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other gains, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of comprehensive income in other gains. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other gains in the statement of comprehensive income.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to associates, derivative financial instruments, interest-bearing bank loans and other borrowings, guaranteed senior notes, and convertible bonds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income. The net fair value gain or loss recognised in the statement of comprehensive income does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

Convertible bonds

For convertible bonds which comprise both liability and equity components under HKAS 32, on issuance of convertible bonds, the fair value of the liability component (including host debt and, if any, embedded derivatives other than the equity component) is determined using a market rate for an equivalent non-convertible bond; and the liability component is accounted for as a financial liability, i.e., if there are embedded derivatives that need to be separated, upon initial recognition, the embedded derivatives are separated from the host debt and are carried as derivative financial liabilities at fair value, and the host debt is carried at amortised cost. Otherwise (i.e., if there is no embedded derivative that needs to be separated), the liability component is carried at amortised cost. The remainder of the proceeds is allocated to the conversion option (the equity component) that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Convertible bonds (continued)

Where the conversion option of a convertible bond does not meet the definition of equity, the convertible bond contains only liability and derivative components. On initial recognition, the entire convertible bond is either designated as a financial liability at fair value through profit or loss, or the embedded derivatives (including all embedded derivatives that should be separated from the host debt) are separated from the host debt and are carried as derivative financial liabilities at fair value, and the host debt (i.e., the remaining portion of the convertible bond) is carried at amortised cost. If the embedded derivatives are separated from the host debt, transaction costs are apportioned between the host debt and derivative components of the convertible bonds based on the allocation of proceeds to the host debt and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the host debt is recognised initially as part of the host debt liability. The portion relating to the derivative component is recognised immediately in the statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

(a) Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

(b) Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

(c) Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Properties held or under development for sale

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value.

The costs of properties held or under development for sale comprise specifically identified cost, including acquisition costs, development expenditures and borrowing costs and other related expenditure directly attributable to the development of such properties. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

Land development for sale

Development cost of land development for sale comprises the aggregate cost of development, materials and supplies, capitalised borrowing costs on related borrowing funds during the period of construction and other costs directly attributable to such land development for sale.

Land development for sale is stated at the lower of cost and net realisable value. Net realisable value takes into account the Group's share of proceeds derived from the sale of land development for sale by government authorities, less costs to completion and the costs to be incurred in realising the revenue derived from the sale of land development for sale based on prevailing market conditions.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories mainly comprise food, beverages, operating supplies and low value consumables used in hotel and golf course operations, and are stated at the lower of cost or net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets with similar nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Sale of development properties

Revenue from the sale of properties is recognised upon completion of a sale agreement, which refers to the time when properties are completed and delivered to the buyers. Deposits and instalments received on properties sold prior to completion of the respective sale agreements are included as advances received from the pre-sale of properties under development.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from land development

The Group is given the right to carry out construction and preparation works in respect of land infrastructure and ancillary public facilities (owned by the local governments) within certain districts. When the land plots are sold by the local governments to land buyers through public auction, tender or listing, the Group is entitled to receive from the local governments a proportion of the proceeds from land sales (including related public utilities fees, if any). As ancillary public facilities are separately identifiable from land infrastructure, such proceeds to be received by the Group are allocated between land infrastructure and ancillary public facilities based on their relative fair values.

Revenue from land development is recognised upon the transfer of risks and rewards in connection with the land development and when the amount of revenue can be measured reliably, which occurs upon the completion of related construction works as well as sales of land. Accordingly, at the time of the sales of land, proceeds allocated to the completed land infrastructure and completed ancillary public facilities are recognised as revenue, and proceeds allocated to uncompleted construction works are deferred and recognised as revenue when the related construction works are completed.

Golf course operations

Revenue from golf course operations represents the income from the usage of golf courses and ancillary equipment, the provision of golf services, and the provision of food and beverages, etc., which is recognised when the services are rendered or goods are sold.

Golf club membership revenue

Golf club membership entitles the members to golf operations related services provided during the membership period or to purchase goods or services at prices lower than those charged to non-members. Golf club membership revenue is recognised on the straight-line basis which reflects the expected period when the benefits are provided.

Property leasing under operating lease

Operating lease income from investment properties is recognised on the straight-line basis over the lease term, which is the non-cancellable period for which the lessee has contracted to lease the properties together with any further terms for which the lessee has the option to continue to lease the properties, with or without further payments, when at the inception of the lease, it is reasonably certain that the lessee will exercise the option.

Sale of network equipment

Revenue from the sale of network equipment is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has been passed. The Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Construction of infrastructure for an intelligent network and installation of an intelligent network

Revenue from the construction of infrastructure for an intelligent network and installation of intelligent network is recognised as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable that the costs incurred will be recovered.

Property management revenue

Property management revenue is recognised in the accounting period in which the services are rendered.

Hotel operations

Revenue from hotel operations represents the income from hotel rooms and the sale of related food and beverages, which is recognised when the services are rendered or goods are sold.

Interest income

Interest income is recognised on an accrual basis using the effective interest method.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established.

Share-based payment transactions

A subsidiary of the Company, China New Town Development Company Limited ("CNTD") operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the CNTD Group's operations. Employees (including senior executives) of CNTD receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by the Group with assistance from the valuer using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the CNTD Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share, where appropriate.

Other employee benefits

Employee retirement scheme

The employees of the Group's entities which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute 14% to 22% (2010: 14% to 22%) of the standard salary announced by the government to the central pension scheme. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme. In addition, the Group participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's basic salaries are made by the employer and the Hong Kong employees, respectively. The provision and contributions have been included in the statement of comprehensive income upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a weighted average capitalisation rate has been applied to the expenditure on the individual assets.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants (including non-monetary grants) are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is deducted from the relevant asset before arriving at the carrying amount of the asset and released to the statement of comprehensive income by way of a reduced cost of assets' charge. Grants received in connection with the Group's role in planning and constructing the ancillary public facilities are deducted from the development cost of the ancillary public facilities and would be recognised indirectly in the form of an increased profit margin over the course of recognising revenue in connection with the ancillary public facilities services.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

(a) Functional and presentation currencies

Items included in the financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's and its subsidiaries' functional currency is Renminbi ("RMB"), as the major revenues are derived from operations in Mainland China. Considering the Company is listed on the HKEx, the Hong Kong dollar ("HK$") is chosen as the presentation currency to present these financial statements.

(b) Transactions and balances

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss are recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of the Group are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period;

(ii) income and expenses of the Group are translated into the presentation currency at the average exchange rates for the period (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated into the presentation currency at the exchange rate ruling at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

For the purpose of the consolidated statement of cash flows, the cash flows of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of which arise throughout the year are translated into the presentation currency at the weighted average exchange rates for the year.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, if any, and all monetary items that provide an effective hedge for such investments, if any, are recognised in other comprehensive income. When a foreign operation is disposed of, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amount of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group. Contingent liabilities (except for contingent liability recognised in a business combination) and assets are not recognised on the statement of financial position of the Group and the Company.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was HK$649 million (2010: HK$672 million).

For details of estimated impairment of goodwill, please see Note 19.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period during the years ended 31 December 2011 and 31 December 2010 using the term and reversion method on the basis of capitalisation of net rental income derived from the existing tenancies with due allowance for reversionary income potential of the property interest, direct capitalisation method by assuming a stabilised economic income capitalised by a market yield rate and direct comparison approach by making reference to the sales transactions of the comparable properties by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

Investment properties under construction are also carried at fair value as determined by independent professional qualified valuers, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost. The fair value of investment properties under construction is determined using the residual method.

For details of change in fair values of investment properties and investment properties under construction in 2011, please see Note 17.

Carrying amount of land development for sale and properties under development for sale

The Group's land development for sale and properties under development for sale are stated at the lower of cost and net realisable value.

Based on the Group's recent experience and the nature of the subject land development, the Group makes estimates of cost allocated to each parcel of land infrastructure and attributable to ancillary public facilities and infrastructure, and its net realisable value, i.e., the revenue to be derived from the sale of land development for sale by government authorities, less costs to completion and the costs to be incurred in realising the revenue from the sale of land development for sale based on prevailing market conditions.

The costs of properties under development for sale comprise specifically identified cost, including acquisition costs, development expenditures and borrowing costs and other related expenditure directly attributable to the development of such properties. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

If the cost is higher than the estimated net realisable value, provision for the excess of cost of land development for sale and properties under development for sale over their net realisable values should be made. Such provision would require the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for land development for sale and properties under development for sale in the periods in which such estimate is changed will be adjusted accordingly.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets, liabilities and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective group entity's domicile.

Deferred tax assets are recognised for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed.

For details of deferred tax assets and liabilities and income tax, please see Note 35 and Note 12.

Impairment of receivables

Impairment of receivables is made based on assessment of the recoverability of receivables. The identification of impairment of receivables requires management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimation, such difference will have impact on the carrying value of the receivables and impairment of receivables/reversal of impairment in the period in which such estimate has been changed.

For details of estimated impairment of receivables in 2011, please see items (c) and (d) in Note 27.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. Such estimates could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or management will write off or write down technically obsolete assets that have been abandoned.

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in Note 2.4. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs to sell and the value in use, where the calculations of which involve the use of estimates.

For details of property, plant and equipment, please see Note 16.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Measurement of revenue from land development

Revenue from the development of land infrastructure and ancillary public facilities (owned by the local governments) is allocated and recognised separately. The allocation of revenue from the land development to land infrastructure and ancillary public facilities is based on their relative fair values of the construction works, determined by reference to the relative estimated construction costs of each component, as the nature of construction works for the components is similar.

Revenue attributable to land infrastructure is recognised in full upon the sale of the relevant land use rights and the specific construction works are completed. However, revenue attributable to ancillary public facilities is recognised for the portions of ancillary public facilities completed at the sale of the land. The remaining revenue attributable to uncompleted portions of ancillary public facilities is recognised as deferred revenue as a current liability in the statements of financial position, and will be recognised as revenue when the related construction works are completed.

Estimation of fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, separated derivative components of the convertible bonds) is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

The fair values of the convertible bonds (including the values allocated the host debt, conversion options classified either as a financial liability or equity and other derivatives embedded in the convertible bonds that need to be separately accounted for) that need to be accounted for at fair value at initial recognition (or subsequently if there is any embedded derivative that needs to be separately accounted for), cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow method and option price models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as credit risk, market risk and volatility, etc. Changes in assumptions about these factors could affect the reported carrying values of such financial instruments.

For details of estimated fair value of derivatives and other financial instruments, please see Notes 36, 37 and 47.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets (other than goodwill) are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- The property development segment develops and sells residential and commercial properties;
- The land development segment provides land infrastructure development and construction of ancillary public facilities;
- The property leasing segment leases offices and commercial properties owned by the Group which are classified as investment properties;
- The hotel operations segment provides hotel accommodation, hotel catering and conference hall services; and
- The corporate and other operations segment comprises, principally, golf course operations and the provision of property management services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices on sales and transfers between operating segments are negotiated on an arm's length basis in a manner similar to transactions with third parties.

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4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows:

	2011					
	Property development	Land development	Property leasing	Hotel operations	Corporate and other operations	Total
Segment revenue						
Sales to external customers	5,416,545	801,211	158,156	245,605	164,486	6,786,003
Intersegment sales	–	51,837	–	818	428,522	481,177
	5,416,545	853,048	158,156	246,423	593,008	7,267,180
Reconciliation:						
Elimination of intersegment sales						(481,177)
Revenue						6,786,003
Segment profit/(loss)	1,094,697	(54,714)	205,108	(122,550)	(6,141)	1,116,400
Finance income						148,028
Finance costs						(531,994)
Finance costs – net						(383,966)
Share of profits and losses of:						
Jointly-controlled entities						
Associates						(1,076)
						6,845
Profit before tax						738,203
Segment assets and liabilities						
Segment assets	24,296,773	7,773,331	6,874,523	1,953,080	2,632,597	43,530,304
Investments in jointly-controlled entities						
Investments in associates						48,241
						77,372
Total assets						43,655,917
Segment liabilities	16,198,523	3,533,876	2,928,844	74,226	7,945,945	30,681,414
Total liabilities	16,198,523	3,533,876	2,928,844	74,226	7,945,945	30,681,414
Other segment information:						
Depreciation and amortisation	10,562	11,451	266	154,514	27,076	203,869
Capital expenditure*	7,053	1,530	69,009	47,854	229,406	354,852
Fair value gain on derivative financial assets, net	–	–	–	–	105,765	105,765
Fair value gain on investment properties, net	–	–	129,590	–	–	129,590
Impairment of goodwill	55,562	–	–	–	–	55,562
Provision for impairment of other receivables	–	241,078	–	–	27,067	268,145

* Capital expenditure consists of additions of property, plant and equipment (HK$255,306 thousand), investment properties (HK$68,448 thousand) and prepaid land lease payments (non-current) (HK$31,098 thousand).

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows (continued):

	2010					
	Property development	Land development	Property leasing	Hotel operations	Corporate and other operations	Total
Segment revenue						
Sales to external customers	4,360,186	1,382,696	138,524	269,261	138,107	6,288,774
Intersegment sales	–	205,250	–	1,393	98,577	305,220
	4,360,186	1,587,946	138,524	270,654	236,684	6,593,994
Reconciliation:						
Elimination of intersegment sales						(305,220)
Revenue						6,288,774
Segment profit/(loss)	1,303,814	718,347	(39,043)	(21,651)	(214,725)	1,746,742
Finance income						71,317
Finance costs						(312,946)
Finance costs-net						(241,629)
Share of profits and losses of associates						25,459
Profit before tax						1,530,572
Segment assets and liabilities						
Segment assets	22,031,440	6,686,681	6,967,206	2,025,077	2,959,420	40,669,824
Investments in associates						72,182
Total assets						40,742,006
Segment liabilities	16,595,220	2,582,665	3,307,966	146,400	6,782,594	29,414,845
Total liabilities	16,595,220	2,582,665	3,307,966	146,400	6,782,594	29,414,845
Other segment information:						
Depreciation and amortisation	9,988	9,663	123	128,217	35,041	183,032
Capital expenditure*	6,397	7,211	124,427	51,233	35,401	224,669
Fair value loss on derivative financial asset, net	–	–	–	–	6,178	6,178
Fair value loss on investment properties, net	–	–	137,842	–	–	137,842
Provision for impairment of other receivables	–	–	–	–	21,256	21,256

* Capital expenditure consists of additions of property, plant and equipment (HK$96,491 thousand), investment properties (HK$123,950 thousand) and prepaid land lease payments (non-current) (HK$4,228 thousand).

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) All the sales to external customers of the Group are generated from Mainland China.

(b) Non-current assets

As of 31 December 2011, more than 99% (2010: more than 99%) of the Group's non-current asset (based on the location of assets and excludes financial instruments and deferred tax assets) are located in Mainland China.

Information about major customers

Land development revenue from the Group's share of proceeds from land sale by local authorities in Shanghai accounted for approximately 11% (2010: 22%) of the Group's revenue in the year ended 31 December 2011.

The Group's other customers are widely dispersed. Other than as mentioned in the previous paragraph, no revenue amounting to 10% or more of the Group's revenue was derived from sales to a single customer or a group of customers which are known to be under common control for the years ended 31 December 2011 and 2010.

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; room charges from hotel operations and gross rental income received and receivable from investment properties during the year.

An analysis of revenue is as follows:

	2011	2010
Sale of development properties	**5,731,745**	4,589,437
Revenue from land development	**837,100**	1,467,053
Hotel operations	**260,389**	283,656
Revenue from property leasing (Note 17)	**155,773**	137,031
Property management revenue	**131,641**	103,011
Golf operation	**70,766**	68,936
Revenue from construction of infrastructure for an intelligent network	**4,250**	9,114
Sale of network hardware and installation of intelligent home equipment	**900**	2,610
Other revenue	**6,992**	4,431
	7,199,556	6,665,279
Less: Business tax and surcharges	**(413,553)**	(376,505)
Total revenue	**6,786,003**	6,288,774

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

5. REVENUE (continued)

(i) Business tax and surcharges

Business tax is calculated at 5% of the revenue from the sale of properties, the development of land, hotel operations, the installation of intelligent home equipment, the provision of property management services and property leasing, at 20% of the revenue from golf operation and at 3% of the net income received from the construction of infrastructure for an intelligent network after deducting amounts payable to subcontractors.

Government surcharges, comprising City Maintenance and Construction Tax, Education Surtax and River Way Management Fee, are calculated at certain percentages of business tax.

6. OTHER LOSSES – NET

	2011	2010
Fair value gain/(loss) on investment properties, net (Note 17)	**129,590**	(137,842)
Derivative instruments at fair value through profit or loss-fair value gain/(loss), net	**105,765**	(6,178)
Loss on disposal of property, plant and equipment, net	**(23)**	(20,162)
Gain on disposal of a subsidiary (Note 44)	**309**	–
Gain on bargain purchase of a subsidiary	**–**	28,940
Loss on redemption of guaranteed senior notes	**–**	(4,798)
Gain from dilution of equity interest in an associate	**–**	375
Impairment of goodwill (Note 19)	**(55,562)**	–
Bad debt provision – other receivables	**(268,145)**	(21,256)
Donation	**(91)**	(22,216)
Others	**(2,829)**	(5,112)
	(90,986)	(188,249)

The bad debt provision against other receivables amounting to RMB18,510 thousand (approximately HK$21,256 thousand) has been reclassified from administrative expenses (Note 7) to other losses for the year ended 31 December 2010. In the opinion of the Group, the reclassification result in a more appropriate presentation of the Group's operating results.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

7. EXPENSE BY NATURE

	2011	2010
Cost of inventories sold (excluding depreciation)	**4,751,680**	3,615,770
Depreciation of property, plant and equipment (Note 16)	**190,682**	169,071
Employee benefit expense (including directors' emoluments)		
– Wages and salaries	**145,335**	114,324
– Equity-settled share option expense	**6,340**	6,400
– Other social welfare	**39,713**	39,337
	191,388	160,061
Operating lease payments in respect of buildings	**7,910**	11,625
Auditors' remuneration	**9,337**	11,582
Commission for sale of properties and land	**9,066**	30,387
Advertising costs	**83,681**	69,430
Expense incurred for golf tournament	**120,130**	–
Miscellaneous tax	**61,943**	51,698
Transportation fee	**21,273**	25,001
Office expense	**10,379**	7,605
Exhibition fees	**8,862**	11,270
Water and electricity	**24,049**	19,536
Financial advisory service expenses	**3,120**	4,037
Business entertainment expenses	**14,659**	11,484
Expenses incurred for the issuance of CB5	**3,469**	–
Expenses incurred for the listing of existing shares of a subsidiary	**–**	36,814
Others	**66,989**	118,412
	5,578,617	4,353,783

8. FINANCE INCOME

	2011	2010
Interest income on bank deposits	**60,883**	34,295
Net foreign exchange gain	**87,145**	37,022
	148,028	71,317

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9. FINANCE COSTS

An analysis of finance costs is as follows:

	2011	2010
Interest expense:		
Interest on bank borrowings and other borrowings – wholly repayable within five years	630,137	391,730
Interest on bank borrowings and other borrowings – wholly repayable beyond five years	252,317	183,108
Interest on the guaranteed senior notes – wholly repayable within five years (Note 33)	51,094	70,589
Interest on Convertible Bonds 4 (“CB4”) – wholly repayable within five years (Note 36)	71,007	61,407
Adjustment to the carrying amount due to shortened expected life on CB4 – wholly repayable within five years (Note 36)	101,862	–
	1,106,417	706,834
Less: Interest capitalised	(574,423)	(393,888)
Finance costs	531,994	312,946

During the year ended 31 December 2011, the weighted average interest capitalisation rate was 7.38% (excluding CNTD and its subsidiaries which manage their financing separately from the other entities of the Group) (2010: 6.81%). The weighted average interest capitalisation rate of CNTD during the year ended 31 December 2011 was 6.55% (2010: 6.45%).

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

			2011		
Name of director	**Salaries**	**Pension scheme**	**Fees**	**Management Grant***	**Total**
Executive directors					
– Mr. Shi Jian	3,000	–	–	–	3,000
– Mr. Li Yao Min	3,500	–	–	1,532	5,032
– Mr. Yu Hai Sheng	2,500	–	–	–	2,500
– Mr. Jiang Xu Dong	2,000	–	–	–	2,000
– Mr. Shi Pin Ren	2,517	–	–	–	2,517
– Mr. Yue Wai Leung (resigned in 2011)	2,751	86	–	1,532	4,369
– Mr. Zhang Hong Fei (appointed in 2011)	699	–	–	–	699
– Mr. Shi Li Zhou (appointed in 2011)	100	–	–	–	100
Non-executive directors					
– Mr. Cheung Wing Yui	–	–	360	–	360
– Mr. Jin Bing Rong	–	–	330	–	330
Independent non-executive directors					
– Mr. E Hock Yap	–	–	330	–	330
– Mr. Yuan Pu (appointed in 2011)	–	–	165	–	165
– Mr. Jiang Xie Fu	–	–	362	–	362
– Mr. Zhuo Fu Min	–	–	360	–	360
Total	17,067	86	1,907	3,064	22,124

			2010		
Name of director	Salaries	Pension scheme	Fees	Management Grant*	Total
Executive directors					
– Mr. Shi Jian	3,000	–	–	–	3,000
– Mr. Li Yao Min	3,500	–	–	2,270	5,770
– Mr. Yu Hai Sheng	2,500	–	–	–	2,500
– Mr. Jiang Xu Dong	2,000	–	–	–	2,000
– Mr. Shi Pin Ren (appointed in 2010)	1,164	–	–	–	1,164
– Mr. Yue Wai Leung	2,440	–	–	2,270	4,710
Non-executive directors					
– Mr. Cheung Wing Yui	–	–	360	–	360
– Mr. Jin Bing Rong	–	–	330	–	330
Independent non-executive directors					
– Mr. E Hock Yap	–	–	330	–	330
– Mr. Pan Long Qing (resigned in 2010)	–	–	330	–	330
– Mr. Jiang Xie Fu	–	–	330	–	330
– Mr. Zhuo Fu Min (appointed in 2010)	–	–	30	–	30
Total	14,604	–	1,710	4,540	20,854

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

10. DIRECTORS' REMUNERATION (continued)

* On 5 July 2007, the Board of Directors of CNTD passed a resolution to award a total of 380 shares (equivalent to 28,500,000 shares after CNTD's share split in 2007) to certain CNTD's directors and employees ("Entitled Persons") as an incentive for their continued service to CNTD. Mr. Li Yao Min and Mr. Yue Wai Leung, who are also directors of CNTD, were each awarded 79 shares (equivalent to 5,925,000 shares after CNTD's share split), respectively. The terms of CNTD's Management Stock Option Plan (the "Management Grant") are detailed in Note 31.

The Management Grant is provided on the basis that the relevant Entitled Persons remain in service within the CNTD Group on the vesting dates and he/she has not submitted a notice of resignation at those dates. The exercise price is RMB8 per share (before CNTD's share split in 2007). The Management Grant is accounted for as a compensation for services to be provided by the Entitled Persons in the periods of service (the "vesting periods"). Since the shares granted do not vest until the Entitled Persons complete their services in the vesting periods, CNTD will recognise the expenses over the vesting periods.

No discretionary bonuses, inducement fees, employer's contribution to pension schemes or compensation for loss of office as directors were given to any of the directors during the years ended 31 December 2011 and 2010.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2011 and 2010.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2010: four) directors, details of whose remuneration are set out in Note 10 above. Details of the remuneration of the remaining one non-director, highest paid employees for the year 2010 are as follows:

	2011	2010
Salaries, housing allowances, other allowances and benefits in kind	–	2,200

The remuneration of the non-director, highest paid employee fell within the following band:

	2011	2010
HK$2,000,001-HK$3,000,000	–	1

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12. INCOME TAX

	2011	2010
Current taxation		
– Mainland China income tax (a)	**452,591**	719,484
– Mainland China LAT (c)	**(47,372)**	277,190
	405,219	996,674
Deferred taxation (Note 35)		
– Mainland China income tax	**(184,561)**	(275,073)
– Mainland China LAT	**64,723**	(9,831)
– Mainland China withholding tax (d)	**33,823**	103,313
	(86,015)	(181,591)
Total tax charge for the year	**319,204**	815,083

(a) Mainland China income tax

The Group conducts a significant portion of its business in Mainland China and the applicable income tax rate of its subsidiaries operating in Mainland China is generally 25%, in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiary of the Group in Mainland China, which is taxed at a preferential rate of 24% (2010: 22%).

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of sale transactions and revenue recognition based on certain estimations. The outstanding balance of prepaid income tax was approximately HK$27 million as at 31 December 2011 (2010: HK$55 million).

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2016. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

(c) Mainland China land appreciation tax (“LAT”)

LAT is incurred upon transfer of property and land ownership and is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

12. INCOME TAX (continued)

(c) Mainland China land appreciation tax ("LAT") (continued)

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transactions and revenue recognition, generally based on 1.5% to 5% (2010: 1% to 5%) on proceeds of the sale and pre-sale of properties. Prepaid LAT had been recorded in "prepaid income tax" with an amount of approximately HK$155 million as at 31 December 2011 (2010: approximately HK$59 million).

Upon the completion of final clearance and settlement of LAT of a completed real estate project, an amount of RMB190 million (approximately HK$229 million) LAT accrued in prior periods was no longer payable and thus credited to the profit during the year ended 31 December 2011.

(d) Mainland China withholding tax

Pursuant to the PRC Corporate Income Tax Law which became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from withholding tax.

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate of 25% for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

	2011	2010
Profit before tax	**738,203**	1,530,572
Tax at the applicable tax rate of 25%	**184,551**	382,643
Different tax rates for certain subsidiaries	**(27)**	(402)
Tax effect of results attributable to associates and jointly-controlled entities	**(1,442)**	(6,365)
Impact of LAT (which is itself classified as part of income tax) as it is deductible for income tax purposes	**(4,338)**	(66,840)
Income not subject to tax	**(2,053)**	(11,628)
Tax losses not recognised	**114,493**	71,415
Expenses not deductible for tax	**68,645**	75,588
Previous years' tax losses recognised	**(91,799)**	–
Effect of withholding tax at 10% on the retained profits expected to be distributed of the Group's subsidiaries in Mainland China	**33,823**	103,313
Mainland China income tax	**301,853**	547,724
Mainland China LAT (including deferred LAT)	**17,351**	267,359
Total tax expense for the year at the Group's effective tax rate	**319,204**	815,083

The share of taxes attributable to associates amounting to approximately HK$3.1 million (2010: HK$3.7 million) is included in "share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated statement of comprehensive income. There is no share of tax attributable to jointly-controlled entities (2010: Nil).

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13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of HK$42,494 thousand (2010: profit HK$37,235 thousand) which has been dealt with in the financial statements of the Company (Note 31(b)).

14. DIVIDENDS PAID AND PROPOSED

No final dividend to the shareholders is proposed by the Company in respect of the year ended 31 December 2011.

Pursuant to a resolution passed at the general meeting on 31 May 2011, the Company offered to its shareholders dividends of HK$0.029 per share in respect of 2010 with an alternative to the shareholders of the company to elect to receive the dividend in cash in lieu of all or part of their scrip dividend entitlements. As a result, shareholders holding a total of 2,121,471,498 shares elected for cash dividend and cash dividends of approximately HK$61,523 thousand were paid in 2011, while shareholders holding a total of 2,182,409,696 shares elected for scrip dividends, resulting in 102,743 thousand shares being allotted at the price of HK$0.616 per share (Note 30).

15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the scrip dividends during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, assuming conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares are convertible bonds (Note 36) of the Company and potential ordinary shares of CNTD, including CNTD's Management Grant (Note 31(a)) and its convertible bonds.

In calculation of the diluted earnings per share amount for the year ended 31 December 2010, the convertible bonds were assumed to have been converted into ordinary shares and the net profit was adjusted to eliminate the interest expense of the convertible bonds less any applicable tax effect. The CNTD's Management Grant was treated as options and regarded as outstanding from the grant date.

For the year ended 31 December 2011, the calculation of diluted earnings per share amount did not take into account the convertible bonds or CNTD's Management Grant because they are anti-dilutive.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2011	2010
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**496,707**	629,652
Interest expenses recognised on the host debt component of convertible bonds, net of tax	–	61,407
Net effect of dilutive potential ordinary shares of a subsidiary	–	(5,412)
Profit attributable to ordinary equity holders of the parent before the above impact arising from convertible bonds	**496,707**	685,647

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

	Number of shares	
	2011	2010
	(Thousand shares)	(Thousand shares)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**4,328,131**	3,703,810
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	**–**	479,928
	4,328,131	4,183,738

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

16. PROPERTY, PLANT AND EQUIPMENT

GROUP

				2011			
	Buildings	Golf operational assets	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost							
Beginning of year	1,817,439	702,762	2,113	704,681	114,390	186,898	3,528,283
Additions	26	1,720	–	13,276	16,431	223,853	255,306
Transfer from construction in progress	2,977	57,781	–	–	–	(60,758)	–
Transfer from properties held for sale or under development	23,531	–	–	–	–	154,338	177,869
Disposals	(3,755)	–	–	(6,607)	(3,757)	–	(14,119)
Exchange realignment	90,604	36,110	105	35,077	5,950	16,002	183,848
End of year	1,930,822	798,373	2,218	746,427	133,014	520,333	4,131,187
Accumulated depreciation and impairment							
Beginning of year	452,641	107,894	336	274,120	65,993	–	900,984
Depreciation charge (Note 7)	57,137	20,399	151	96,754	16,241	–	190,682
Disposals	(199)	–	–	(6,005)	(2,935)	–	(9,139)
Exchange realignment	23,652	5,783	12	15,487	3,595	–	48,529
End of year	533,231	134,076	499	380,356	82,894	–	1,131,056
Net carrying amount							
Balance, end of year	1,397,591	664,297	1,719	366,071	50,120	520,333	3,000,131
Balance, beginning of year	1,364,798	594,868	1,777	430,561	48,397	186,898	2,627,299

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP (continued)

	2010						
	Buildings	Golf operational assets	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost							
Beginning of year	1,780,087	708,901	1,704	643,732	102,612	162,141	3,399,177
Acquisition of subsidiaries	–	–	–	540	2,742	–	3,282
Additions	8,186	2,506	342	41,123	11,322	33,012	96,491
Transfer	–	14,332	–	–	–	(14,332)	–
Disposals	(32,197)	(46,933)	–	(3,988)	(6,043)	–	(89,161)
Exchange realignment	61,363	23,956	67	23,274	3,757	6,077	118,494
End of year	1,817,439	702,762	2,113	704,681	114,390	186,898	3,528,283
Accumulated depreciation and impairment							
Beginning of year	384,222	88,034	244	192,143	50,413	–	715,056
Acquisition of subsidiaries	–	–	–	237	1,782	–	2,019
Depreciation charge (Note 7)	55,228	21,364	82	76,520	15,877	–	169,071
Disposals	(1,433)	(4,951)	–	(3,185)	(4,149)	–	(13,718)
Exchange realignment	14,624	3,447	10	8,405	2,070	–	28,556
End of year	452,641	107,894	336	274,120	65,993	–	900,984
Net carrying amount							
Balance, end of year	1,364,798	594,868	1,777	430,561	48,397	186,898	2,627,299
Balance, beginning of year	1,395,865	620,867	1,460	451,589	52,199	162,141	2,684,121

Depreciation expenses of approximately HK$167,556 thousand (2010: approximately HK$133,811 thousand) had been expensed in the cost of goods sold, approximately HK$3,436 thousand (2010: approximately HK$5,650 thousand) in selling and marketing costs and approximately HK$19,690 thousand (2010: approximately HK$29,610 thousand) in administrative expenses.

As at 31 December 2011, the property, plant and equipment with a net carrying amount of HK$1,403,972 thousand (2010: HK$1,361,346 thousand) were pledged as collateral for the Group's bank loans and facilities (Note 32).

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY

	2011		
	Furniture, fitting, fixtures and office equipment	**Motor vehicles**	**Total**
Cost			
Beginning of year	635	3,398	4,033
Disposals	(135)	–	(135)
Exchange realignment	29	169	198
End of year	529	3,567	4,096
Accumulated depreciation			
Beginning of year	454	867	1,321
Depreciation charge	40	629	669
Disposal	(118)	–	(118)
Exchange realignment	21	56	77
End of year	397	1,552	1,949
Net carrying amount			
Balance, end of year	132	2,015	2,147
Balance, beginning of year	181	2,531	2,712

	2010		
	Furniture, fitting, fixtures and office equipment	Motor vehicles	Total
Cost			
Beginning of year	588	3,284	3,872
Additions	26	–	26
Exchange realignment	21	114	135
End of year	635	3,398	4,033
Accumulated depreciation			
Beginning of year	397	246	643
Depreciation charge	43	598	641
Exchange realignment	14	23	37
End of year	454	867	1,321
Net carrying amount			
Balance, end of year	181	2,531	2,712
Balance, beginning of year	191	3,038	3,229

Notes to Financial Statements

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17. INVESTMENT PROPERTIES

GROUP

Completed investment properties

	2011	2010
At beginning of year	**6,624,338**	6,329,400
Transfer from investment properties under construction	**35,158**	199,623
Transfer from properties held or under development for sale	**136,892**	–
Fair value gain/(loss) (Note 6)	**140,780**	(135,864)
Addition in cost	**16,061**	9,292
Transfer to properties held or under development for sale	**(652,957)**	–
Transfer to prepaid land lease payments (Note 18)	**(16,809)**	–
Exchange realignment	**321,248**	221,887
At end of year	**6,604,711**	6,624,338

Investment properties under construction

	2011	2010
At the beginning of the year	**111,646**	193,879
Additions	**52,387**	114,658
Transfers to completed investment properties	**(35,158)**	(199,623)
Fair value loss (Note 6)	**(11,190)**	(1,978)
Exchange realignment	**5,665**	4,710
At end of year	**123,350**	111,646

The completed investment properties as at 31 December 2011 mainly represent the properties as follows:

A 3-storey shopping mall at Huangpu District, Shanghai, with a fair value of approximately HK$1,352 million. The periods of operating leases entered into for the shopping mall range from 2 to 7 years.

Portions of 7 blocks of multi-storey shopping mall and car-park places at Putuo District, Shanghai, with a total fair value of approximately HK$969 million. The periods of operating leases entered into range from 2 to 15 years.

A 7-storey shopping mall at Shenhe District, Shenyang, with a total fair value of approximately HK$3,421 million. The periods of operating leases entered into for the shopping mall range from 1 to 15 years.

A retail street at Baoshan District, Shanghai, with a fair value of approximately HK$518 million. The periods of operating leases are mainly from 1 to 10 years.

A Supermarket Shopping mall at Baoshan District, Shanghai with a fair value of approximately HK$234 million. The periods of operating leases are mainly from 3 to 20 years.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

17. INVESTMENT PROPERTIES (continued)

GROUP (continued)

A retail street at Hongshan New Town, Wuxi, with a fair value of approximately HK$91 million. The periods of operating leases are mainly from 3 to 6 years.

As at 31 December 2011, the Group's investment properties were valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL") and DTZ Debenham Tie Leung Limited ("DTZ"), independent professionally qualified valuers. As there is no active market for the said properties, and due to the absence of similar properties in the same location and condition, the valuations were performed based on the income approach (term and reversion method or discounted cash flow method) for all completed investment properties. The following main inputs have been used.

	2011	2010
Yield		
Shanghai Oasis Middling Centre – Office	4.1% – 4.4%	4.1% – 4.4%
Shanghai Oasis Middling Centre – Shopping Mall	6% – 6.5%	6.5% – 6.8%
Shanghai Oasis Middling Centre – Car-park	5.5% – 6%	–
Shanghai Richgate Shopping Mall	6% – 6.5%	6.25% – 6.5%
Shenyang Richgate Shopping Mall	5% – 6%	5% – 6%
Scandinavia Street, Shanghai	6.5% – 7%	9% – 10%
Retail Street in Wuxi Project	4% – 5%	4% – 5%
Shopping mall, Shanghai	4% – 5%	4% – 5%

In arriving at the fair value of the investment properties under construction, reference is made to the comparable sales evidence available in a relevant market, after taking into account the expended construction costs and the costs that will be expended to complete the development.

The Group's interests in completed investment properties and investment properties under construction at their net book values are analysed as follows:

	2011	2010
In Mainland China, held on:		
Leases of over 50 years	1,351,906	1,236,431
Leases of between 10 and 50 years	5,376,155	5,499,553
	6,728,061	6,735,984

The investment properties pledged for bank borrowings are disclosed in Note 32.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

17. INVESTMENT PROPERTIES (continued)

GROUP (continued)

The following amounts relating to the investment properties have been recognised in profit or loss:

	2011	2010
Rental income (Note 5)	**155,773**	137,031
Direct operating expenses arising from investment properties that generate rental income	**(34,154)**	(27,966)
Rental income on investment properties less direct operating expenses	**121,619**	109,065

18. PREPAID LAND LEASE PAYMENTS

GROUP

	2011	2010
In Mainland China, held on:		
– Leases of over 50 years	**9,215,580**	7,909,868
– Leases of between 10 and 50 years	**3,666,078**	3,507,374
In other country, free held	**45,229**	–
	12,926,887	11,417,242

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2011	2010
At beginning of year	**11,417,242**	8,519,946
Additions	**2,494,873**	2,343,484
Acquisition of subsidiaries	**–**	1,222,926
Transfer from investment properties (Note 17)	**16,809**	–
Amortisation capitalised as properties under development for sale	**(255,058)**	(249,822)
Disposals with the sale of completed properties	**(831,275)**	(725,611)
Disposal of a subsidiary (Note 44)	**(488,261)**	–
Amortisation	**(13,187)**	(14,286)
Exchange realignment	**585,744**	320,605
At end of year	**12,926,887**	11,417,242
Analysed as:		
Non-current: In relation to properties classified under property, plant and equipment	**507,906**	399,796
Current: In relation to properties held or under development for sale	**12,418,981**	11,017,446
	12,926,887	11,417,242

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

18. PREPAID LAND LEASE PAYMENTS (continued)

GROUP (continued)

As at 31 December 2011, the Group's leasehold land of approximately HK$6,638 million (2010: HK$3,659 million) was pledged as collateral for the Group's bank loans and facilities (Note 32).

19. GOODWILL

GROUP

	2011	2010
Cost		
At beginning of year	671,979	453,788
Acquisition of subsidiaries	–	196,069
Exchange realignment	32,141	22,122
At end of year	704,120	671,979
Accumulated impairment		
At beginning of year	–	–
Impairment losses recognised (Note 6)	55,562	–
At end of year	55,562	–
Net carrying amount		
Balance, end of year	648,558	671,979
Balance, beginning of year	671,979	453,788

Impairment testing of goodwill

Goodwill acquired through certain business combinations has been mainly allocated to the following cash-generating units for impairment testing:

– Shenyang Albany Oasis Garden

– Richgate II

– Bairun

These cash-generating units are parcels of lands with properties currently under development and located in the cities of Shenyang and Shanghai, respectively, and will be available for sale in the forthcoming one to seven years.

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

19. GOODWILL (continued)

Impairment testing of goodwill (continued)

The recoverable amounts for Shenyang Albany Oasis Garden, Richgate II and Bairun property development projects cash-generating units have been determined based on a value-in-use calculation using cash flow projections based on forecasts covering seven-year, five-year and three-year periods respectively, approved by management. The pre-tax discount rates applied to the cash flow projections are 15.5% (2010: 17.2%), 14.7% (2010: 16.5%) and 16.2% (2010: 20.6%), respectively, and the cash flow for periods beyond the five-year period is consistent with the real estate industry market indices. Professional valuers, JLL, were engaged to assist the Group in determining the estimated value in use.

The cost of goodwill allocated to each of the major cash-generating units before impairment is as follows:

	2011	2010
Albany Oasis Garden property development project	**390,592**	372,138
Richgate II property development project	**93,581**	89,160
Bairun property development project	**178,061**	169,648
Others	**41,886**	41,033
	704,120	671,979

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill with the assistance from JLL:

– Selling prices – The market prices of comparable properties nearby

– Construction costs – The estimated costs including infrastructure costs to complete the property development projects

– Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant cash-generating units.

The values assigned to key assumptions are based on historical experiences, current market condition, approved budgets and forecasts and consistent with external information sources.

As at 31 December 2011, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill arising from the acquisition of Bairun was higher than its recoverable amount. Considering the current market conditions, the management estimated that the forecasted selling prices of properties under Bairun project might not achieve the level expected prior to 2011. The change in this key assumption resulted in a significant decrease in the amount of value-in-use of the cash-generating unit. As a result, the Company provided an impairment loss of RMB46 million (approximately HK$56 million) in the Group's consolidated financial statements for the year ended 31 December 2011 (2010: Nil).

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES

(a) Investments in subsidiaries

COMPANY

	2011	2010
Unlisted equity interests, at cost	**5,403,327**	5,148,045

As at the 31 December 2011, the Company had direct or indirect interests in the following subsidiaries:

Name	**Place and date of incorporation or establishment**	**Proportion of ownership interest**		**Issued and paid-up capital**	**Authorised share capital**	**Principal activities**
		Held by the Company	Held by subsidiaries			
Shanghai Xin Dong Industry Co., Ltd.	PRC 28 May 1993	–	98%	US$3,457,729	US$3,457,729	Property leasing and real estate agency
Shanghai Real Estate Property Management Co., Ltd.	PRC 1 September 1995	–	98.57%	RMB42,200,000	RMB42,200,000	Property management
Shanghai Oasis Garden Real Estate Co., Ltd.	PRC 29 September 1998	–	98.75%	US$19,600,000	US$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd.	PRC 4 August 1999	–	98.96%	US$20,000,000	US$20,000,000	Development of technology for housing and provision of construction services
Shanghai Zhufu Property Development Co., Ltd	PRC 11 August 2000	–	50.36%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd. ("Anderson Shanghai")	British Virgin Islands ("BVI") 29 September 2001	–	52%	US$100	US$100	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd.	PRC 16 April 2002	–	51.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd.	PRC 14 June 2002	–	98%	US$10,000,000	US$10,000,000	Property development
Shanghai Andong Real Estate Development Ltd.	PRC 18 October 2007	–	99%	RMB370,000,000	RMB370,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd. ("Jinwu")	PRC 12 August 2002	–	95.79%	US$54,962,000	US$54,962,000	Property development and property leasing
Shanghai Jinxin Real Estate Co., Ltd.	PRC 28 October 2002	–	100%	RMB700,000,000	RMB700,000,000	Property development

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Held by subsidiaries			
Shanghai Skyway Hotel Co., Ltd.	PRC 9 December 2002	–	56%	RMB200,000,000	RMB200,000,000	Hotel operations
Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management")	PRC 30 October 2007	–	60%	US$31,936,200	US$31,936,200	Property leasing
Shenyang Huajian Real Estate Co., Ltd.	PRC 3 November 2006	–	100%	US$45,000,000	US$45,000,000	Property leasing
Shanghai Shuo Cheng Real Estate Co., Ltd.	PRC 29 January 2003	–	100%	RMB450,000,000	RMB450,000,000	Property development
Shanghai Liangshi Enterprises Ltd.	PRC 24 May 2006	–	98.75%	RMB1,000,000	RMB1,000,000	Property development
Shanghai Shangzhi Real Estate Development Co., Ltd. ("Shangzhi Real Estate")	PRC 16 October 2008	–	98.75%	RMB10,000,000	RMB10,000,000	Property development
Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao") (i)	PRC 4 December 2000	–	97.5%	RMB750,000,000	RMB750,000,000	Property development
Haikou Century Harbour City Co., Ltd.	PRC 25 June 2008	–	79%	RMB320,000,000	RMB320,000,000	Property development
Shenyang Lukang Real Estate Ltd.	PRC 13 July 2007	–	98.95%	US$31,250,000	US$31,250,000	Property development
Haikou Century Richgate Business Administration Co., Ltd.	PRC 20 October 2008	–	100%	US$300,000	US$300,000	Hotel administration
Shanghai Lushan Real Estate Ltd.	PRC 4 August 2004	–	27.70%	RMB11,110,000	RMB11,110,000	Property development
Shanghai Xiangdao Real Estate Ltd.	PRC 21 July 2009	–	98.75%	RMB200,000,000	RMB200,000,000	Property development
Shanghai Xiabo Industry Ltd.	PRC 14 September 1995	–	98.75%	RMB3,000,000	RMB3,000,000	Property development

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20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Held by subsidiaries			
Shanghai Haibo Property development Co., Ltd.	PRC 27 December 1996	–	98.75%	RMB15,000,000	RMB15,000,000	Property development
Shanghai Bairun Real Estate Co., Ltd. ("Bairun")	PRC 16 May 2002	–	50.36%	RMB112,000,000	RMB112,000,000	Property development
Wuxi Zhongqing Real Estate Co., Ltd.	PRC 11 July 2008	–	98.75%	RMB85,000,000	RMB85,000,000	Property development
Jiaxing Lake Richgate Real Estate Co., Ltd.	PRC 26 September 2007	–	98.96%	US$49,900,000	US$49,900,000	Property development
Shanghai Zhiyi Enterprise Ltd.	PRC 14 March 2011	–	98.96%	RMB30,000,000	RMB30,000,000	Procurement management
Meredith Land Pty. Ltd.	AUS 19 November 2010	–	76%	AUD1,000	AUD1,000	Property development
Shanghai Huajian Real Estate Property Management Co., Ltd.	PRC 24 June 2011	–	100%	–	US$50,000	Property management
Shanghai SRE Internet of things (IOT) Co. Ltd	PRC 24 June 2011	–	83.78%	RMB20,000,000	RMB20,000,000	Internet of things
Shanghai Lake Malaren Property Management Co., Ltd.	PRC 23 June 2005	–	98.57%	RMB5,000,000	RMB5,000,000	Property management
China New Town Development Company Limited ("CNTD") (ii)	BVI 4 January 2006	–	68.07%	RMB2,801,179,902	10 billion shares (No par)	Land development
Shanghai Golden Luodian Development Co., Ltd. ("SGLD") (ii)	PRC 26 September 2002	–	49.44%	RMB548,100,000	RMB548,100,000	Land development
Shanghai Lake Malaren Sports and Culture Co., Ltd. (Formerly named Shanghai Lake Malaren Golf Club Co., Ltd.). (ii)	PRC 6 July 2004	–	46.97%	RMB5,000,000	RMB5,000,000	Golf club management

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20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Held by subsidiaries			
Shanghai Junyihui Entertainment Co., Ltd. (ii)	PRC 28 July 2005	–	49.44%	RMB1,680,000	RMB1,680,000	Entertainment services provider
Shanghai Lake Malaren Hotel Management Co., Ltd. (ii)	PRC 25 April 2006	–	49.44%	RMB5,000,000	RMB5,000,000	Hotel management
Shanghai Lake Malaren Hospital Investment Co., Ltd. (Formerly named Shanghai Luodian Infrastructure Development Co., Ltd.) (ii)	PRC 16 March 2009	–	49.44%	RMB200,000,000	RMB200,000,000	Hospital investment and health consultation
Shanghai Lake Malaren Tourism Development Co., Ltd. (ii)	PRC 29 December 2009	–	44.50%	RMB3,000,000	RMB3,000,000	Travelling information and wedding etiquette services
Shanghai Golden Luodian International Travel Services Co., Ltd. (ii)	PRC 18 June 2010	–	44.50%	RMB1,000,000	RMB1,000,000	Travel service
Chengdu Shanghai Real Estate Co., Ltd. (ii)	PRC 20 December 2010	–	49.44%	RMB20,000,000	RMB20,000,000	Property development
Shanghai Jia Tong Enterprises Co., Ltd. (ii)	PRC 12 April 2006	–	68.07%	RMB1,000,000	RMB1,000,000	Consultation services
Wuxi Hongshan New Town Development Co., Ltd. ("Wuxi Hongshan") (ii)	PRC 6 March 2007	–	61.26%	RMB355,271,457	RMB355,271,457	Land development
Shenyang Lixiang New Town Development Co., Ltd. (ii)	PRC 6 March 2007	–	61.26%	RMB747,667,000	RMB747,667,000	Land development
Shanghai CNTD Management Consulting Co., Ltd. (ii)	PRC 21 June 2007	–	68.07%	RMB1,513,000	RMB1,513,000	Enterprise investment consultation
Wuxi Hongshan New Town Virescence Environmental Protection Construction Co., Ltd. (ii)	PRC 17 August 2007	–	61.26%	RMB372,204,000	RMB372,204,000	Planting, maintenance and management of scenic spots in the Wuxi Project
Wuxi Hongqing Real Estate Development Co., Ltd. (ii)	PRC 27 April 2010	–	61.26%	RMB8,000,000	RMB8,000,000	Property development

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20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Held by subsidiaries			
Changchun New Town Automobile Industry Construct Co., Ltd. (ii)	PRC 15 November 2007	–	54.46%	RMB220,267,000	RMB220,267,000	Land development
Shenyang Lake Malaren Country Club Co., Ltd. (ii)	PRC 6 March 2008	–	68.07%	RMB17,704,000	RMB17,704,000	Sports management
Shenyang Meteorite Park Tourism Development Co., Ltd. (ii)	PRC 13 March 2008	–	61.26%	RMB340,050,000	RMB340,050,000	Landscaping, and plant maintenance and management of scenic spots
Wuxi Hongshan New Town Commercial Operation and Management Co., Ltd. (ii)	PRC 18 March 2008	–	61.26%	RMB1,000,000	RMB1,000,000	Business management
Shanghai Hengchang Trading Co., Ltd. (ii)	PRC 9 May 2011	–	68.07%	US$500,000	US$500,000	Procurement management
Shanghai Yuanyi Industrial Co., Ltd. (ii)	PRC 2 August 2011	–	68.07%	RMB3,000,000	RMB3,000,000	Procurement management

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Other than disclosed above, the Company has several investment holding subsidiaries incorporated in the BVI or Hong Kong with nominal issued shares. All subsidiaries located in Mainland China are limited liability entities.

The major transactions relating to the investments in subsidiaries are as follows:

(i) On 18 November 2011, Shenyang Luyi Hotel Management Ltd, a wholly-owned subsidiary of the Company, entered into an acquisition agreement with a non-controlling shareholder to purchase a 7.5% equity interest in Liaoning Gao Xiao for a total consideration of RMB185 million (approximately HK$223 million). The transaction was completed prior to the end of 2011. After completion of this share transfer, equity interest held by the Group in Liaoning Gao Xiao increased from 90% to 97.5%. RMB168 million (approximately HK$203 million), being the partial payment, has been paid in cash during 2011.

Since the transaction is an acquisition of non-controlling interest in a subsidiary, the difference between the purchase consideration and share of net assets acquired, amounting to approximately HK$82 million, was debited to other reserves.

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

(ii) In April 2011, CNTD issued 4,905,000 new shares according to CNTD's Management Stock Option Plan. On 14 September 2011, Sinopower, a 100% owned subsidiary of the Company, has acquired 262 million CNTD Shares from the third parties at the aggregate consideration of SG$15,982,000 (approximately HK$99 million) plus the relevant stamp duty and related expenses. In December 2011, CNTD issued 6,131,250 new shares according to CNTD's Management Stock Option Plan. As a result of these transactions, the Group's equity interest in CNTD increased from 61.54% to 68.07%.

The above transactions constitute an acquisition of non-controlling interests in a subsidiary, the excess of share of net assets acquired over the purchase considerations, amounting to approximately HK$125 million, was credited to other reserves.

For all subsidiaries and associate of CNTD, the percentage of equity interest attributable to the Group has changed in line with the change of the Group's equity interest percentage in CNTD.

(iii) During the year ended 31 December 2011, the Group disposed of a subsidiary of Wuxi Yongqing Property Development Co., Ltd. ("Wuxi Yongqing") (Note 44).

(b) Advances to subsidiaries

COMPANY

All the advances to subsidiaries as at 31 December 2011 were unsecured, interest-free and had no fixed repayment terms (31 December 2010: except for an advance amounting to approximately HK$73.7 million to Anderson Land Shanghai which carried interest at a rate of 3% per annum and a US$4.5 million loan to Huarui Asset Management which carried interest at London Interbank Offered Rate, advances to other subsidiaries were unsecured, interest-free and had no fixed repayment terms).

21. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

GROUP

	2011
Unlisted investments	
Share of net assets	48,241
	48,241

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

21. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

GROUP (continued)

(i) SGLD, a subsidiary, entered into a 50% interest in Shanghai Lake Malaren International Culture Art Co., Ltd. in 2011, a jointly-controlled entity engaged in the artwork business.

The Group's share of the assets and liabilities as at 31 December 2011 and income and expenses of the jointly-controlled entity for the year ended 31 December 2011 is as follows:

	31 December 2011
Share of the jointly-controlled entity's statement of financial position:	
Current assets	10,154
Non-current assets	1,182
Current liabilities	(4)
Net assets	11,332
Share of the jointly-controlled entity's revenue and loss:	
Revenue	202
Selling expenses	(422)
Administrative expenses	(779)
Other income	16
Loss before tax	(983)
Loss after tax	(983)

(ii) Wuxi Hongshan, a subsidiary, entered into a 60% interest in Wuxi New District Xinrui Hospital Management Co., Ltd. in 2011, a jointly-controlled entity engaged in medical operation.

The Group's share of the assets and liabilities as at 31 December 2011 and income and expenses of the jointly-controlled entity for the year ended 31 December 2011 is as follows:

	31 December 2011
Share of the jointly-controlled entity's statement of financial position:	
Current assets	36,909
Net assets	36,909
Share of the jointly-controlled entity's revenue and loss:	
Administrative expenses	(110)
Other income	17
Loss before tax	(93)
Loss after tax	(93)

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

22. INVESTMENTS IN ASSOCIATES AND AMOUNTS DUE FROM/TO ASSOCIATES

(a) Investments in associates

GROUP

	2011	2010
Unlisted equity interests		
Share of net assets	77,372	72,182
Less: Provision for impairment	–	–
	77,372	72,182

As at the 31 December 2011, the Company had direct or indirect interests in the following associates:

Name	Place and date of incorporation or establishment	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Held by subsidiaries			
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC 6 May 1997	–	26%	RMB100,000,000	RMB100,000,000	Research and development of housing technology
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC 24 October 2000	–	19.80%	RMB100,000,000	RMB100,000,000	Development and sale of netware and construction of broadband fibre projects
Shanghai Shangxin Huafu Investment and Management Ltd	PRC 14 July 2011	–	24.75%	RMB9,100,000	RMB9,100,000	Investment consulting
Shanghai Malaren Lake Artwork Exhibition Co., Ltd.	PRC 25 April 2006	–	9.89%	RMB1,000,000	RMB1,000,000	Artwork exhibition

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

The year ended dates of the above associates are coterminous with those of the Group.

The Group's shareholdings in the associates all comprise equity shares held through certain wholly-owned subsidiaries and non-wholly-owned subsidiaries of the Company. All the above associates have been accounted for using the equity method in these financial statements.

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

22. INVESTMENTS IN ASSOCIATES AND AMOUNTS DUE FROM/TO ASSOCIATES (continued)

(a) Investments in associates (continued)

Extracts of financial information of principal associates

The following tables illustrate the financial information of the Group's principal associates as extracted from their financial statements:

(1) **Broadband**

	2011	2010
Assets	**312,452**	377,094
Liabilities	**(107,023)**	(182,898)
Revenue	**206,024**	193,444
Profit after tax	**41,724**	63,652

(2) **New Technology**

	2011	2010
Assets	**131,268**	134,083
Liabilities	**(3,447)**	(6,743)
Revenue	**13,357**	7,646
Profit after tax	**(5,763)**	32,626

(b) Amounts due from associates

	Group		**Company**	
	2011	2010	**2011**	2010
Amounts due from:				
– Broadband	**304**	8,113	**–**	–
	304	8,113	**–**	–

The above amount due from an associate at 31 December 2010 included a dividend receivable of RMB6 million (approximately HK$7 million) from Broadband. The amount was interest-free and no fixed maturity date.

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

23. OTHER NON-CURRENT ASSETS

GROUP

	2011	2010
Deferred commission from sale of golf membership	**57,606**	56,970
Others	**955**	1,004
	58,561	57,974

24. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	2011	2010
At cost		
– In Shanghai City, PRC	**5,519,288**	3,991,432
– In Shenyang City, PRC	**1,110,785**	1,196,374
– In Wuxi City, PRC	**527,189**	198,286
– In Jiaxing City, PRC	**421,444**	38,925
– In Haikou City, PRC	**280,637**	699,491
– In Chengdu City, PRC	**228,242**	–
– In Sydney City, Australia	**7,674**	–
	8,095,259	6,124,508

GROUP

	2011	2010
Properties held or under development expected to be recovered		
– Within one year	**5,638,616**	3,939,019
– After one year	**2,456,643**	2,185,489
	8,095,259	6,124,508

As at 31 December 2011 and 2010, certain of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank loans and facilities (Note 32).

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25. LAND DEVELOPMENT FOR SALE

GROUP

	2011	2010
At cost:		
Mainland China	**6,366,044**	4,416,924

Land development for sale represents the cost of land development within the districts of the new town development projects. Though the Group does not have ownership title or land use rights to such land, the Group is given the right to carry out construction and preparation works in respect of land infrastructure and ancillary public facilities in those new town development projects. When the land plots are sold by the local governments, the Group is entitled to receive from the local authorities a proportion of the proceeds from land sales (including related public utilities fees, if any).

Land development for sale is expected to be realised in the normal operating cycle, which is longer than twelve months.

As mentioned in Note 2.4, accounting policy of revenue recognition on land development for sale, when revenue is recognised depends on the timing of sales of related land plots by authorities, which is uncertain and out of the control of the Group. Upon the sales of related land plots by authorities, the amounts of land development for sale were recognised and recorded as cost of sales (see Note 7).

26. PREPAYMENTS AND OTHER CURRENT ASSETS

	Group		**Company**	
	2011	2010	**2011**	2010
Non-current				
Prepayments (a)	**821,086**	–	–	–
	821,086	–	–	–
Current				
Prepaid business tax	**105,887**	172,639	–	–
Prepayments (b)	**258,070**	483,391	–	–
Others	**8,256**	15,301	**3,293**	3,117
	372,213	671,331	**3,293**	3,117

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

26. PREPAYMENTS AND OTHER CURRENT ASSETS (continued)

(a) The above non-current prepayments at 31 December 2011 mainly included RMB180 million (approximately HK$222 million) of prepayment for construction of sports park in Wuxi, RMB130 million (approximately HK$160 million) of prepayment for construction of a hotel in Wuxi and RMB200 million (approximately HK$247 million) of prepayment for construction of a hospital in Wuxi.

The above non-current prepayments as at 31 December 2011 also included an earnest money of HK$192 million paid to the non-controlling shareholder for the acquisition of the Interest. As mentioned in Note 37, the Group can exercise a call option to purchase up to a 40% equity interest (the "Interest") of Huarui Asset Management. Though payment of the earnest money indicated the Group's intention to exercise the call option, the payment did not constitute an exercise of the call option, and the entire earnest money is interest-free and refundable any time without any penalty.

(b) The above current prepayments at 31 December 2011 mainly included RMB137 million (approximately HK$169 million) of prepayments for land use rights located in Shenyang (31 December 2010: RMB214 million and RMB137 million (approximately HK$251 million and HK$161 million) in Chengdu and Shenyang respectively).

27. OTHER RECEIVABLES

GROUP

	2011	2010
Receivables in connection with acquisition of Konmen Investment Limited (a)	580,586	551,201
Receivables due from a disposed subsidiary (b)	94,153	491
Receivables in respect of CNTD's Changchun Project (c)	246,193	343,281
Deposit for a real estate project	37,005	35,257
Interest subsidy receivable	22,832	21,256
Deposit for land bidding	–	111,827
Compensation receivable due from two third-party constructors (d)	43,173	41,133
Relocation compensation receivable from government	51,881	–
Receivable from over-paid deemed tax	27,112	–
Others	139,001	103,158
	1,241,936	1,207,604
Less: provision for impairment (c) and (d)	(296,670)	(21,256)
Other receivables, net	945,266	1,186,348

27. OTHER RECEIVABLES (continued)

(a) On 17 August 2007, SRE Investment Holding Limited (a substantial shareholder of the Company, or the "Vendor") and an independent third party (the "Original Shareholder") entered into an acquisition agreement (the "Vendor Acquisition Agreement"), pursuant to which the Vendor agreed to purchase, from the Original Shareholder, the entire issued share capital (the "Sale Share") of Konmen Investment Limited ("Konmen"), which in turn holds a 70% interest in Liaoning Gao Xiao, for a consideration of HK$1,600 million.

On the same date, the Vendor and a subsidiary of the Company (the "Purchaser") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Purchaser agreed to purchase the Sale Share from the Vendor for a consideration of HK$1,600 million. Pursuant to the Acquisition Agreement, the consideration was satisfied by the Company issuing 526,315,789 shares at a price of HK$3.04 per share, representing approximately 23.80% of the then existing issued share capital of the Company and approximately 19.22% of the issued share capital of the Company as enlarged by the newly issued shares. The market share price on the acquisition date was HK$3.36 per share.

On 15 November 2007, a supplemental agreement was entered into between the Vendor, the Company, the Purchaser, the Original Shareholder and Konmen (the "Supplemental Agreement").

Liaoning Gao Xiao is the developer of two properties (the "Properties") and also successfully won the bid in August 2007 for the acquisition of a parcel of land (the "Land") with a site area of approximately 153,696 square metres. Both the Properties and the Land are located at Shenyang City, the PRC. The total purchase cost of the Land including demolition and relocation costs that would be incurred is estimated at RMB1,192,680,960 (the "Land Purchase Cost"). Also, Liaoning Gao Xiao had assets (the "Assets") other than the Land and the unsold part of the Properties, and other liabilities (the "Liabilities"), upon completion of the acquisition.

According to the above agreements, the Original Shareholder agreed to pay Liaoning Gao Xiao the Land Purchase Cost, to bear the Liabilities and to reimburse Liaoning Gao Xiao the relevant amounts payable in respect of the Liabilities, to the extent that they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. If the amounts paid by the Original Shareholder are made to the Vendor, the Vendor agreed to transfer such amounts to the Group. The Original Shareholder is also entitled to receive the Assets from the Group through the Vendor, to the extent that such assets have not been paid to the Original Shareholder and/or the shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao.

Pursuant to the above agreements, the Vendor has also undertaken to pay Liaoning Gao Xiao the Land Purchase Cost, and to bear the Liabilities and to reimburse Liaoning Gao Xiao the relevant amounts payable in respect of the Liabilities, to the extent they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. In addition, in the event that Liaoning Gao Xiao fails to obtain the relevant land use right to the Land by 30 June 2009, the Vendor undertakes to pay the Company HK$1,600 million in cash on or before 30 December 2009 (the "Undertaking").

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27. OTHER RECEIVABLES (continued)

(a) (continued)

It was subsequently announced by the Company on 26 June 2009 that as at 30 April 2009, Liaoning Gao Xiao has only obtained land use rights for approximately 28% of the site area of the Land. On 4 December 2009, the Special General Meeting of the Company passed a resolution that the Company shall not exercise its rights under the Undertaking for the time being and shall delay enforcement of the Undertaking against the Vendor to 31 December 2012 if Liaoning Gao Xiao still fails to obtain the land use rights certificates in respect of the remaining portion of the Land by then.

In connection with the above, RMB515 million (HK$549 million) were received by the Group in 2007. During 2011, the balance increased by RMB 2 million (approximately HK$ 2 million), as a result of partial settlement of the Liabilities during the normal course of business of Liaoning Gao Xiao in relation to the Properties, the amount will be reimbursed from the Original Shareholders or the Vendor according to the agreements above. As a result, as at 31 December 2011, the outstanding receivable in respect of this transaction amounted to approximately RMB471 million (approximately HK$581 million) (2010: approximately RMB469 million (approximately HK$551 million)).

(b) In August 2011, the Group entered into an agreement to dispose of its equity interest in a wholly-owned subsidiary, Wuxi Yongqing. The disposal was completed in October 2011. Since it is no longer a subsidiary, Wuxi Yongqing's unsettled payables to the Group, RMB76 million (approximately HK$94 million) as at 31 December 2011, was recorded as an other receivable of the Group.

(c) In December 2009, the Group entered into an agreement (the "2009 Agreement") with the Changchun Auto Industry Development Zone Administrative Committee (the "Changchun Committee") to cease the land development by the Group in Changchun. Pursuant to the 2009 Agreement, although no detailed repayment schedule had been set out in the 2009 Agreement, the Changchun Committee agreed to fully repay the Group within a year from the date of the 2009 Agreement for, firstly, the cost of construction, which shall be determined by independent qualified professional parties after conducting construction audits, and, secondly, the cost of relocation that has been incurred by the Group in accordance with the relevant relocation agreement, and compensate the Group for finance costs (including certain related miscellaneous expenditure) at an interest rate of 10% per annum based on the time elapsed since the actual date when such finance costs were incurred by the Group. In December 2010, due to the delay in construction audits and other necessary procedures, the Changchun Committee issued a letter requesting to extend the repayment of remaining balances from the end of 2010 to no later than the end of 2011. However, up to 31 December 2011, total collections from the Changchun Committee were only approximately RMB61 million (approximately HK$75 million). In year 2011, the Group agreed with the Changchun Committee to offset part of the receivable with its payable of relocation cost to the Committee of RMB74 million (approximately HK$91 million). The remaining balance of about RMB199 million (approximately HK$245 million) was still outstanding as at 31 December 2011. Since the balance has been aged for more than two years, and the Changchun Committee failed to honour the extended repayment term and cease to co-operate with the Group, in spite of all the efforts of the Group to collect the receivable, though the Group would continue to chase payments, considering the current situation, the Group made a full provision of RMB199 million (approximately HK$241 million) against the outstanding balance (31 December 2010: no provision).

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27. OTHER RECEIVABLES (continued)

(d) The above other receivable balances at 31 December 2011 also included an amount of RMB35 million (approximately HK$43 million) receivable due from two third-party constructors. In December 2008, due to illegal occupation of agricultural land for the purpose of constructing a golf course, the Liaoning Department of Land and Resources established that as a case for investigation, and it issued the Administrative Penalty Decision Notice in this respect in year 2010. Though the Group has instructed the third-party constructors to stop the construction of the golf course on the agricultural land, the constructors still continued such construction and therefore the constructors agreed to compensate the Group by RMB41 million (approximately HK$48 million) in year 2010. During the year ended 31 December 2011, no amount has been collected by the Group from the constructors (RMB6 million, approximately HK$7 million, was collected in 2010). For one constructor with the outstanding receivables with an amount of RMB14 million (approximately HK$17 million), a supplementary agreement has been reached on 15 February 2012 between the Group and the constructor to net off the outstanding balance with trade payables to the constructor. For another constructor with the outstanding receivables with an amount of RMB21 million (approximately HK$26 million), considering the fact that it is overdue for more than one year and no amount was collected from the constructor in 2011, though the Group would continue to chase payments, a full provision of RMB21 million (approximately HK$26 million) was made (31 December 2010: no provision).

Other than the items (c) and (d) as mentioned above and HK$22,832 thousand interest subsidy receivable (past due and a full provision for impairment was already made) and HK$1,704 thousand past due and impaired receivables, other receivables are neither past due nor impaired, and the financial assets include in the other receivable balances relate to receivables for which there was no recent history of default.

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28. TRADE RECEIVABLES

GROUP

	2011	2010
Trade receivables	**112,568**	617,983
Less: Provision for impairment	**(10,620)**	(10,118)
	101,948	607,865
Non-current trade receivables	**86,225**	109,598
	188,173	717,463

	2011	2010
Trade receivables:		
Receivables from land development for sale	**72,390**	555,791
Receivables from the sale of golf club membership	**4,461**	8,977
Receivables from hotel operations	**3,244**	10,010
Receivables from property leasing	**152**	3,660
Receivables from the sale of residential and commercial properties	**20,150**	28,934
Others	**12,171**	10,611
Less: Provision for impairment	**(10,620)**	(10,118)
	101,948	607,865
Non-current trade receivables:		
Receivables from land development for sale	**86,119**	109,540
Receivables from the sale of golf club membership	**106**	58
	86,225	109,598
	188,173	717,463

An aged analysis of trade receivables as at the end of the reporting period, from the date when they were recognised, is as follows:

	2011	2010
Within 6 months	**22,510**	57,294
6 months to 1 year	**9,236**	394,640
1 to 2 years	**54,096**	52,588
Over 2 years	**112,951**	223,059
	198,793	727,581

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

28. TRADE RECEIVABLES (continued)

The Group's sales of development properties, hotel and golf (other than golf membership) operations are generally on a cash basis. While the Group's trading terms with its customers for other operations are mainly on credit. The credit terms of the Group are as follows:

– Golf club membership: they are receivable in instalments, the credit terms range from 2 to 3 years;

– Land development: there are no clearly specified credit terms, the receivables represent the Group's share of the proceeds from land sold by local governments through public auction, such receivables from the local governments are generally collectible within 6 months after the land sale. However, it may take the Group longer to receive certain portions (e.g., the amount attributable to public utility fee) of the receivable which is more than one year;

– Others: generally within 6 months.

Except for the amounts receivable in respect of the sale of land receivable from the local governments, the Group's other trade receivables relate to a large number of diversified customers. There is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Trade receivables which are neither past due nor impaired and an aged analysis of past due but not impaired trade receivables are as follows:

	2011	2010
Neither past due nor impaired	**177,214**	684,250
Past due but not impaired:		
Within 30 days	**4,652**	5,804
30 to 60 days	**1,115**	1,110
60 to 90 days	**–**	12,879
90 to 120 days	**–**	2
Over 120 days	**5,192**	13,418
	188,173	717,463

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

28. TRADE RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

	2011	2010
At beginning of year	**10,118**	10,313
Amount written off as uncollectible	**–**	(541)
Exchange realignment	**502**	346
At end of year	**10,620**	10,118

No trade receivable was written off in the year ended 31 December 2011 (2010: HK$0.5 million).

29. CASH AND BANK BALANCES

	Group		**Company**	
	2011	2010	**2011**	2010
Cash on hand	**2,019**	1,894	**27**	15
Demand and notice deposits	**1,302,474**	3,883,060	**69,293**	158,147
Time deposits with original maturity of no more than 3 months	**51,502**	2,350	**–**	–
Cash and cash equivalents	**1,355,995**	3,887,304	**69,320**	158,162
Time deposits with original maturity of more than 3 months	**4,934**	273,501	**–**	–
Pledged bank deposits (a)	**1,113,063**	1,097,661	**–**	–
Restricted bank deposits under a development project (b)	**3,654**	98,631	**–**	–
Restricted bank deposits under government supervision (c)	**5,495**	–	**–**	–
Restricted bank deposits relating to legal arbitration (d)	**–**	3,561	**–**	–
Restricted bank deposits relating to bank borrowings (e)	**38,346**	42,308	**–**	–
Cash and bank balances	**2,521,487**	5,402,966	**69,320**	158,162

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

29. CASH AND BANK BALANCES (continued)

(a) As at 31 December 2011, bank deposits of approximately HK$1,113 million (2010: HK$1,098 million) were pledged as securities for bank borrowings (Note 32).

(b) These restricted bank deposits are mainly funds designated for relocating existing residents under a development project.

(c) Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sale proceeds received at designated bank accounts as guarantee deposits for the construction of the relevant properties. As at 31 December 2011, such guarantee deposits amounted to approximately HK$5 million (2010: Nil)

(d) As at 31 December 2010, the restricted bank deposits were frozen by the bank for legal arbitration according to the progression of a lawsuit. In 2011, the lawsuit was closed and no loss incurred.

(e) An amount of RMB31 million (equivalent to HK$38 million) (2010: RMB36 million, equivalent to HK$42 million) is restricted in connection with bank borrowings.

The carrying amounts of the cash and bank balances which are denominated in the following currencies are:

	Group		Company	
	2011	2010	**2011**	2010
Hong Kong dollars	**74,435**	267,946	**62,990**	157,965
United States dollars	**59,388**	16,083	**6,329**	196
Singapore dollars	**167**	109	**1**	1
Australia dollars	**2,201**	–	**–**	–
RMB	**2,385,296**	5,118,828	**–**	–
	2,521,487	5,402,966	**69,320**	158,162

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Demand deposits earn interest at floating rates based on daily bank deposit rates. Notice deposits are made for varying periods of between one day and seven days depending on the immediate cash requirements of the Group, and earn interest at the respective notice deposit rates. Time deposits earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents, pledged and restricted deposits approximate to their fair values.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

30. SHARE CAPITAL AND PREMIUM

GROUP AND COMPANY

		Amount		
	Number of shares (thousands)	**Issued capital**	**Share premium**	**Total**
At 1 January 2011	**3,603,881**	**360,388**	**4,376,101**	**4,736,489**
Issue of scrip dividends	**102,743**	**10,274**	**53,016**	**63,290**
Issue of shares upon conversion of convertible bonds	**550,000**	**55,000**	**374,448**	**429,448**
Issue of new shares	**700,000**	**70,000**	**492,487**	**562,487**
31 December 2011	**4,956,624**	**495,662**	**5,296,052**	**5,791,714**

		Amount		
	Number of shares (thousands)	Issued capital	Share premium	Total
At 1 January 2010 and 31 December 2010	3,603,881	360,388	4,376,101	4,736,489

The total authorised number of ordinary shares is 8,000 million (2010: 8,000 million), each share with a par value of HK$0.10 (2010: HK$0.10). All issued shares are fully paid up.

(a) The Company's share option scheme was approved at a special general meeting held on 23 May 2002. According to this share option scheme, the directors may, at their discretion, at any time during the 10 years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and may not be less than the higher of (i) the average official closing price of the shares on the HKEx for the five trading days immediately preceding the relevant offer date and (ii) the official closing price of the shares on the HKEx on the relevant offer date.

No share options of the Company were outstanding as at 31 December 2011 and 2010. CNTD's Management Stock Option Plan was detailed in Note 31(a).

31. RESERVES

(a) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's entities which are established in Mainland China has been transferred to reserve funds which are restricted as to use.

Companies within the Group, most of which are registered in the PRC as foreign invested entities, are required to make appropriations from statutory net profits to the reserve fund and the enterprise expansion fund, upon distribution of their post-tax profits of the current year. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the boards of directors of these companies.

Companies within the Group, which are registered in the PRC as domestic invested entities, are required to appropriate 10% of statutory net profits to the statutory surplus reserve, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profit, a company may make further contribution to the surplus reserve using its post-tax profit in accordance with a resolution of the board of directors.

CNTD's Management Stock Option Plan ("Management Grant")

Since CNTD was deemed as a subsidiary of the Company since 9 September 2009, CNTD's Management Grant was included in the consolidated financial statements of the Group. The detailed information of the Management Grant since it was launched is as follows:

On 5 July 2007, the Board of Directors of the CNTD passed a resolution to award a total of 380 CNTD shares (equivalent to 28,500 thousand of CNTD shares after the CNTD's share split in 2007) to certain of the CNTD's directors and employees ("Entitled Persons") as an incentive for their continued service to CNTD in the following proportions.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

31. RESERVES (continued)

(a) GROUP (continued)

CNTD's Management Stock Option Plan ("Management Grant") (continued)

	Number of CNTD shares allotted	
Entitled Person	**Before the CNTD share split**	**Equivalent to the numbers after the CNTD share split**
Li Yao Min	79	5,925,000
Yue Wai Leung, Stan	79	5,925,000
Yang Yong Gang	68	5,100,000
Gu Bi Ya	40	3,000,000
Cheng Wai Ho	40	3,000,000
Mao Yi Ping	33	2,475,000
Tai Kuo Lin	25	1,875,000
Ma Da Yu	10	750,000
Sun Xiao Meng	3	225,000
Zhang Qiong	3	225,000
Total	380	28,500,000

In accordance with the terms of the Management Grant, the shares are allotted and will vest as follows: (a) 10% at the end of the 12th month after the date of listing of CNTD on the Main Board of the SGX-ST; (b) 15% at the end of the 24th month after the date of listing of CNTD on the Main Board of the SGX-ST; (c) 20% at the end of the 36th month after the date of listing of CNTD on the Main Board of the SGX-ST; (d) 25% at the end of 48th month after the date of listing of CNTD on the Main Board of the SGX-ST; and (e) the remaining 30% at the end of the 60th month after the date of listing of CNTD on the Main Board of the SGX-ST.

The Management Grant is provided on the basis that the relevant Entitled Persons remain in service within CNTD on the vesting days and he/she has not submitted a notice of resignation at those dates. The exercise price is RMB8 per CNTD share (before the CNTD share split in 2007, after the CNTD share split, the exercise price is RMB8 per 75,000 CNTD shares). The Management Grant is accounted for as a compensation for services to be provided by the Entitled Persons in the periods of service (the "vesting periods") as specified above. Since the CNTD shares granted do not vest until the Entitled Persons complete their services in the vesting periods, CNTD recognises the expenses over the vesting periods.

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

31. RESERVES (continued)

(a) GROUP (continued)

CNTD's Management Grant-Fair value of stock options granted

The fair value of the equity-settled stock options was approximately RMB2.023 per CNTD share (after CNTD's share split in 2007) at the date of grant. There have been no cancellations or modifications to the Management Grant, and the Management Grant was not replaced as a result of the acquisition of CNTD on 9 September 2009. The fair value on 9 September 2009 was approximately RMB0.576 per share.

The fair value of the stock option was estimated using the binomial option pricing model. Since the exercise price of the equity-settled stock options is close to zero per share (after CNTD's share split in 2007), the single most important input to the valuation model is the price of the CNTD's shares, which was estimated to be approximately RMB2.023 per share (after CNTD's share split in 2007) at the date of grant, and was quoted at RMB0.576 per share (after CNTD's share split in 2007) on 9 September 2009.

Some of the Entitled Persons who have totally 43 CNTD shares (before CNTD share split in 2007) left CNTD till end of 31 December 2011, so their rights under the Management Grant were forfeited according to the terms of the Management Grant.

There have been no cancellations or modifications to any of the Management Grant during the years ended 31 December 2011 and 2010.

CNTD's Management Grant-Movement in the year

The following table illustrates the number of and movements in the Management Grant during the year:

	2011 Number of CNTD's shares (after the share split)	2010 Number of CNTD's shares (after the share split)
Outstanding at the beginning of the year	**18,393,750**	24,772,500
Forfeited during the year	**–**	(2,250,000)
Exercised during the year	**(11,036,250)**	(4,128,750)
Outstanding at the end of the year	**7,357,500**	18,393,750
Exercisable at the end of the year	**–**	4,905,000

The weighted average of the CNTD share price at the date of exercise for CNTD share options exercised during the year ended 31 December 2011 was SG$0.07 (31 December 2010: SG$0.13).

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

31. RESERVES (continued)

(b) COMPANY

	Share option reserve	Exchange fluctuation reserve	Equity component of convertible bonds	(Accumulated losses)/ Retained profits	Others	Total
Balance at 1 January 2011	248	729,520	179,361	124,762	–	1,033,891
Total comprehensive income for the year	–	308,618	–	(42,494)	–	266,124
Fair value of option related to issuance of convertible bonds	–	–	–	–	10,246	10,246
Cash and scrip dividends	–	–	–	(124,813)	–	(124,813)
Balance at 31 December 2011	248	1,038,138	179,361	(42,545)	10,246	1,185,448

	Share option reserve	Exchange fluctuation reserve	Equity component of convertible bonds	Retained profits	Total
Balance at 1 January 2010	248	535,225	179,361	246,098	960,932
Total comprehensive income for the year	–	194,295	–	37,235	231,530
Cash dividends	–	–	–	(158,571)	(158,571)
Balance at 31 December 2010	248	729,520	179,361	124,762	1,033,891

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

GROUP AND COMPANY

	Group		Company	
	2011	2010	**2011**	2010
Short-term bank borrowings				
– Secured	**200,140**	200,140	**–**	–
Other short-term borrowings				
– Secured	**185,025**	–	**–**	–
– Unsecured	**144,320**	129,745	**–**	–
Current portion of long-term bank borrowings				
– Secured	**2,349,574**	2,637,662	**1,108,086**	947,302
Current portion of other long-term borrowings				
– Secured	**769,356**	51,332	**–**	–
– Unsecured	**115,474**	150,675	**16,794**	33,152
Borrowings, current portion	**3,763,889**	3,169,554	**1,124,880**	980,454
Long-term bank borrowings				
– Secured	**9,668,575**	8,306,434	**–**	155,683
Other long-term borrowings				
– Secured	**532,133**	446,711	**–**	–
– Unsecured	**–**	109,883	**–**	15,865
Borrowings, non-current portion	**10,200,708**	8,863,028	**–**	171,548
The long-term borrowings are repayable as follows:				
– Within 1 year	**3,234,404**	2,839,669	**1,124,880**	980,454
– 1 to 2 years	**4,474,692**	1,768,369	**–**	171,548
– 2 to 3 years	**1,639,553**	2,507,839	**–**	–
– 3 to 5 years	**1,375,668**	1,481,880	**–**	–
– After 5 years	**2,710,795**	3,104,940	**–**	–
	13,435,112	11,702,697	**1,124,880**	1,152,002
Less: long-term borrowings, current portion	**(3,234,404)**	(2,839,669)	**(1,124,880)**	(980,454)
Long-term borrowings, non-current portion	**10,200,708**	8,863,028	**–**	171,548

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

GROUP AND COMPANY (continued)

Short-term bank borrowing-secured

As at 31 December 2011, a short-term bank loan of approximately HK$200 million (2010: approximately HK$200 million) was secured by the pledge of bank deposits.

Other short-term borrowing – secured

As at 31 December 2011, the other short-term borrowing of approximately HK$185 million (2010: Nil) is a loan from a third party trust fund which is secured by the pledge of the Group's leasehold land in Jiaxing.

Other short-term borrowing – unsecured

The unsecured short-term borrowing of approximately HK$144 million (2010: approximately HK$130 million) is an entrusted loan from a non-controlling shareholder of a subsidiary of the Company.

Long-term bank borrowings – secured

As at 31 December 2011, long-term bank borrowings of approximately HK$12,018 million (2010: approximately HK$10,944 million) were secured by the pledges of the Group's leasehold land, together with bank deposits, property, plant and equipment, investment properties, properties held or under development for sale and equity interest of a subsidiary. Among the above long-term bank borrowings, a long-term bank loan with a principal of HK$123 million (2010: HK$176 million) was guaranteed by Mr. Shi Jian, the Chairman of the Company.

Other long-term borrowings – secured

As at 31 December 2011, the other borrowing of approximately HK$779 million is a loan from a third party trust fund which is secured by pledge of the CNTD's 72.63% equity interest in SGLD, and entitlement to certain economic benefits (right to dividends, if any, etc.) in the equity interest of SGLD, use rights of two pieces of land and the title to the properties thereon (whose net carrying amounts at 31 December 2011 are HK$340 million). The loan is also guaranteed by Mr. Shi Jian, the Executive Chairman of the Company. The Group has the right to repay the loan (the outstanding balance of principal and interest thereon) in full, at any time prior to expiry of the term of the loan.

As at 31 December 2011, a long-term borrowing of approximately HK$522 million (2010: approximately HK$498 million) is from a third party trust fund which is secured by the pledge of the Group's 95% equity interest in Jinwu, and entitlement to certain economic benefits (right to dividends, if any, etc.) in the equity interest of Jinwu. The Group has the right to repay the loan (the outstanding balance of principal and interest thereon) in full, at any time prior to expiry of the term of the loan.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

GROUP AND COMPANY (continued)

Other long-term borrowings – unsecured

As at 31 December 2011, an unsecured long-term borrowing of approximately HK$17 million is from an external banker (2010: approximately HK$49 million) in connection with the termination of the cross currency swaps, entered into during the year ended 31 December 2007, and an unsecured long-term borrowing of approximately HK$99 million (2010: HK$212 million) is from a third party trust fund.

Overall collateral arrangements for bank and other borrowings

As at 31 December 2011, bank deposits of approximately HK$1,113 million (2010: approximately HK$1,098 million) (Note 29), leasehold land of approximately HK$6,638 million (2010: approximately HK$3,659 million) (Note 18), investment properties of approximately HK$6,708 million (2010: approximately HK$6,414 million), properties held or under development for sale of approximately HK$3,261 million (2010: approximately HK$2,939 million), and property, plant and equipment of approximately HK$1,404 million (2010: approximately HK$1,361 million) (Note 16) and 100% equity interest in Bairun with a cost of approximately HK$62 million (2010: approximately HK$59 million), and 95% equity interest in Jinwu with a cost of approximately HK$518 million (2010: approximately HK$494 million) and 72.63% equity interest in SGLD with a cost of approximately HK$491 million (2010: Nil) were pledged as collateral for the Group's borrowings and banking facilities.

As at 31 December 2011, bank borrowings of HK$1,037 million (2010: HK$715 million) were secured by part of future property pre-sales proceeds. For some of such projects, pre-determined amounts of the pre-sale proceeds of certain units will be transferred to restricted bank accounts, until the balance of such restricted bank accounts reached the outstanding balance of such loans. For other such projects, related bank borrowings are required to be repaid when a pre-determined percentage of properties in the projects are pre-sold.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

GROUP AND COMPANY (continued)

The weighted average effective interest rates for these borrowings at the end of the reporting period are as follows:

		2011			2010	
	HK$	US$	RMB	HK$	US$	RMB
Short-term bank borrowings	3.68%	–	–	1.79%	–	–
Other short-term borrowings	–	–	9.69%	–	–	5.56%
Long-term bank borrowings	2.63%	–	7.34%	2.76%	–	5.89%
Other long-term borrowings	–	6.01%	11.57%	–	6.01%	11.56%

As bank loans are all borrowed at prevailing market interest rates, which would be adjusted from time to time in line with interest rate changes in the market, the carrying amounts of the bank loans approximate to their fair values.

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2011	2010	2011	2010
Hong Kong dollars	1,308,226	1,303,124	1,108,086	1,102,985
United States dollars	16,794	49,017	16,794	49,017
RMB	12,639,577	10,680,441	–	–
	13,964,597	12,032,582	1,124,880	1,152,002

The Group had the following undrawn credit facilities as at the end of the reporting period:

	2011	2010
Floating rate loan facilities		
– expiring within 1 year	521,648	16,453
– expiring beyond 1 year	664,611	458,338
	1,186,259	474,791

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

33. GUARANTEED SENIOR NOTES

GROUP AND COMPANY

	2011	2010
SRE Guaranteed Senior Notes	559,646	557,322

SRE Guaranteed Senior Notes

At initial recognition, the SRE Guaranteed Senior Notes in their original currency are as follows:

	US$'000
Face value of SRE Guaranteed Senior Notes	200,000
Less: issuance cost	(6,841)
Carrying amount on initial recognition	193,159

The movements in the carrying amount of the SRE Guaranteed Senior Notes during the year are as follows:

	2011		2010	
	US$'000	HK$ equivalent HK$'000	US$'000	HK$ equivalent HK$'000
At beginning of year	71,605	557,322	71,240	552,463
Foreign exchange gain	–	(27,902)	–	(16,874)
Exchange realignment	–	27,110	–	18,891
Add: interest expense (Note 9)	6,564	51,094	6,529	50,737
Less: payment of interest	(6,164)	(47,978)	(6,164)	(47,895)
At end of year	72,005	559,646	71,605	557,322

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

33. GUARANTEED SENIOR NOTES (continued)

GROUP AND COMPANY (continued)

On 24 April 2006, the Company issued guaranteed senior notes maturing on 24 April 2013 (the "Maturity Date"), with an aggregate principal amount of US$200 million and a fixed interest rate of 8.625% per annum (the "SRE Guaranteed Senior Notes"). The SRE Guaranteed Senior Notes are guaranteed by some investment holding subsidiaries which are not incorporated in the PRC.

Interest of the SRE Guaranteed Senior Notes is payable semi-annually in arrears on 24 April and 24 October in each year commencing from 24 October 2006. With regard to the principal amount, the Company has the following redemption options:

i) prior to 24 April 2009, redeem on one or more occasions up to 35% of the aggregate principal amount of the SRE Guaranteed Senior Notes originally issued, at a redemption price of 108.625% of the principal amount, plus accrued and unpaid interest to the redemption date, or

ii) at any time or from time to time prior to the Maturity Date, redeem all or part of the SRE Guaranteed Senior Notes at a redemption price equal to 100% of the principal amount thereof plus an applicable premium plus accrued and unpaid interest to such redemption date.

On 25 April 2006, the SRE Guaranteed Senior Notes were listed on the HKEx.

Interest expense on the SRE Guaranteed Senior Notes is calculated using the effective interest method by applying the effective interest rate of 9.30% per annum.

On 9 June 2009, the Company repurchased SRE Guaranteed Senior Notes in an aggregate principal amount of US$128,539 thousand (representing approximately 64.27% of the total aggregate principal amount of the US$200 million) in cash. Following the partial repurchase of the SRE Guaranteed Senior Notes, US$71,461 thousand of the principal amount of the SRE Guaranteed Senior Notes remained outstanding as at 31 December 2011. The original payment terms of the remaining SRE Guaranteed Senior Notes remained unchanged.

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

34. DEFERRED INCOME

GROUP

		2011	2010
Deferred income arising from:			
Non-current:			
Sale of golf club membership	(i)	643,746	632,478
Current:			
Land development	(ii)	713,852	1,111,837
		1,357,598	1,744,315

(i) The revenue arising from the sale of golf club membership is deferred and recognised on the straight-line basis over the expected period when the related benefits would be provided.

(ii) The deferred revenue arising from land development for sale represents the portion of amounts received/receivable from the land authorities as a result of the sales of parcels of land developed by the Group that are not yet recognised as revenue, because the developments of the ancillary public facilities attributable to the parcels of land sold are still in progress. The amounts received/receivable are non-refundable unless the Group cannot complete the development work. The deferred income is classified as a current liability as the remaining development work is expected to be provided within the normal operating cycle.

35. DEFERRED TAX

GROUP

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, levied by the same tax authority on the same taxable entity.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

35. DEFERRED TAX (continued)

GROUP (continued)

The gross movements in the deferred tax account are as follows:

	2011	2010
At beginning of year	**1,644,065**	1,461,199
Acquisition of subsidiaries	**–**	310,653
Recognised in profit or loss (Note 12)	**(86,015)**	(181,591)
Exchange realignment	**79,699**	53,804
At end of year	**1,637,749**	1,644,065

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Tax losses carried forward	**Difference in accounting and tax bases arising from golf club revenue and costs**	**Difference in accounting and tax bases arising from share transfer consideration**	**Other temporary differences**	**Total**
At 1 January 2010	51,108	130,461	–	38,354	219,923
Recognised in profit or loss	19,877	3,880	230,282	5,642	259,681
Exchange realignment	2,405	4,629	5,385	1,468	13,887
At 31 December 2010	73,390	138,970	235,667	45,464	493,491
Recognised in profit or loss	74,738	(3,361)	51,103	27,427	149,907
Exchange realignment	5,225	6,820	12,770	2,836	27,651
At 31 December 2011	**153,353**	**142,429**	**299,540**	**75,727**	**671,049**

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

35. DEFERRED TAX (continued)

GROUP (continued)

The movements in deferred tax assets and liabilities during the year are as follows: (continued)

Deferred tax liabilities

	Fair value gains	Excess of fair value over book value in the subsidiaries as a result of business combination	Withholding taxes	Others	Total
At 1 January 2010	927,278	412,340	285,973	55,531	1,681,122
Acquisition of subsidiaries	–	310,653	–	–	310,653
Recognised in profit or loss	(21,511)	(26,571)	103,313	22,859	78,090
Exchange realignment	31,755	20,726	12,365	2,845	67,691
At 31 December 2010	937,522	717,148	401,651	81,235	2,137,556
Recognised in profit or loss	32,624	(84,368)	33,823	81,813	63,892
Exchange realignment	47,181	33,771	20,634	5,764	107,350
At 31 December 2011	**1,017,327**	**666,551**	**456,108**	**168,812**	**2,308,798**

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2011	2010
Net deferred tax assets recognised in the consolidated statement of financial position	**(604,208)**	(432,186)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**2,241,957**	2,076,251
	1,637,749	1,644,065

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

35. DEFERRED TAX (continued)

GROUP (continued)

Deferred tax assets have not been recognised in respect of the following items:

	2011	2010
Tax losses	866,258	786,191
	866,258	786,191

The above tax losses arising in Mainland China for offsetting against future taxable profit will expire in one to five years. Deferred tax assets have not been recognised in respect of the tax losses and deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these temporary differences can be utilised.

Pursuant to the resolution of board of directors of the Company, part of PRC subsidiaries' profits generated from 2011 onwards will be retained by PRC subsidiaries for use in future operations or investments. In the opinion of the directors, it is probable that the temporary differences relating to the profits that are not expected to be distributed will not reverse in the foreseeable future. The aggregate amount of unrecognised deferred tax liabilities (i.e. withholding taxes relating to such temporary differences) was approximately HK$32 million (2010: Nil).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

36. CONVERTIBLE BONDS

GROUP AND COMPANY

The carrying value of the host debt components of the convertible bonds as at the end of the reporting period is as follows:

	2011	2010
Convertible Bonds 4 – host debt (a)	**515,814**	354,548
	515,814	354,548

(a) Convertible Bonds 4 ("CB4")

On 23 July 2009 (the "Issue Date"), the Company issued Convertible Bonds (the "CB4"), maturing on 23 July 2014, in the aggregate principal amount of RMB446.9 million with an initial conversion price of HK$1.056 per share with a fixed exchange rate applicable to the conversion of RMB0.8818 = HK$1.00 per ordinary share of the Company (subject to certain anti-dilutive adjustments). The coupon interest rate is 6% per annum, payable semi-annually in arrears on 23 January and 23 July in each year. The bondholders have the option to convert the CB4 to ordinary shares of the Company at any time after 41 days from the Issue Date to 10 business days before its maturity. On July 23 2012 (the "Put Option Date"), the bondholders will have the right (the "Put Option") to require the Company to redeem all or some of the CB4 at a redemption price equal to the US Dollar Equivalent of 100% of their principal amount, together with unpaid accrued interest. The Company also has the option to redeem, at an amount at 100% of the principal amount, all of the CB4 if at least 90% in the principal amount of the CB4 originally issued has already been converted, redeemed or purchased and cancelled before 30 days prior to its maturity date.

On 24 July 2009, the CB4 were listed on the HKEx.

The face value of the outstanding CB4 as at 31 December 2011 and 2010 amounted to RMB446,900 thousand (equivalent to HK$525,209 thousand).

The conversion option embedded in the CB4 meets the definition of equity instruments of the Company, and therefore it is classified as equity and presented separately from the liability component of the convertible bonds. The other embedded derivatives are not separated from host debt because their economic characteristics and risks are closely related to those of the host debt. The liability component is initially recognised as its fair value, net of transaction costs allocated to the liability component, and is subsequently measured at amortised cost. The residual amount (i.e., the excess of net proceeds over the amount allocated to the liability component) is assigned as the equity component (the conversion option) and is included in shareholders' equity.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

36. CONVERTIBLE BONDS (continued)

GROUP AND COMPANY (continued)

(a) Convertible Bonds 4 ("CB4") (continued)

The various components of the respective convertible bonds recognised on initial recognition are as follows:

	CB4
Gross proceeds from issuance of convertible bonds	507,149
Transaction costs attributable to the host debt component	(17,378)
Transaction costs attributable to the equity component	(10,535)
Equity component, net of transaction costs	(179,361)
Host debt component on initial recognition upon issuance	299,875

The movements in the host debt component of CB4 for the year are as follows:

	2011	2010
Host debt component at beginning of year	**354,548**	312,219
Interest expense (Note 9)	**71,007**	61,407
Adjustment to the carrying amount due to shortened expected life (Note 9)	**101,862**	–
Payment of interest	**(32,169)**	(30,792)
Exchange realignment	**20,566**	11,714
Host debt component at end of year	**515,814**	354,548
Less: amount classified as current liability	**515,814**	–
Amount classified as non-current liability	**–**	354,548

Interest expenses on the CB4 are calculated using the effective interest method by applying the effective interest rate of 19.93% per annum to the host debt component.

Due to the change in market condition, the likelihood of bondholders to exercise the Put Option embedded in CB4 significantly increased in 2011, thus the Company increased the carrying amount by approximately RMB84 million (approximately HK$102 million) to reflect the shortened expected life of CB4, with a corresponding charge to interest expense.

36. CONVERTIBLE BONDS (continued)

GROUP AND COMPANY (continued)

(b) Convertible Bonds 5 ("CB5")

On 6 May 2011, the Company and SRE Investment Holding Limited ("the Subscriber", the controlling shareholder of the Company) entered into the Convertible Note Subscription Agreement ("CB5 Subscription Agreement"), pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Convertible Bonds (the "CB5") in the principal amount of HK$550 million with an initial conversion price of HK$1 per share (subject to certain anti-dilutive adjustments). The coupon interest rate is 2% per annum, payable semi-annually in arrears. The bondholder will have the option to convert the CB5 to ordinary shares of the Company at any time from the issue date to 30 business days before its maturity. The Company will have the option to redeem, at an amount at 100% of the principal amount, together with all interest accrued thereon and remained outstanding (if any), at any time on or after the first anniversary of its issuance.

Since all the conditions have been fulfilled on 14 June 2011, completion of the subscription was originally agreed to take place on 12 September 2011 (i.e., 90 days after 14 June 2011).

On 6 September 2011, the Subscriber and the Company agreed to postpone the completion of the subscription to 30 December 2011 or such other date as the Company and the Subscriber may agree in writing. On 10 November 2011, the Company and the Subscriber agreed to complete the subscription of CB5 on that date. On the same date, the Subscriber has given notice to the Company to convert the entire CB5 at the pre-determined conversion price of HK$1.00 per share to 550 million shares of the Company.

Due to the existence of an extended period between the date of agreement and fulfilment of all conditions and completion of subscription/issuance of CB5, and pre-determined issuance/subscription price, the Company's rights and obligations under the CB5 Subscription Agreement met the definition of a derivative which was reported at fair value through profit or loss.

The initial fair value of the derivative (an asset) of HK$10,246 thousand was recognised in equity. The fair value of the derivative asset increased to HK$120,552 thousand on the completion of issuance/subscription of CB5 (10 November 2011), resulting in a gain of HK$110,306 thousand being recorded (Note 6) during 2011.

Since the conversion option embedded in CB5 does not meet the definition of equity and is a liability, upon issuance of CB5, the Company designated the entire CB5 as a financial liability at fair value through profit or loss.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

36. CONVERTIBLE BONDS (continued)

GROUP AND COMPANY (continued)

(b) Convertible Bonds 5 ("CB5") (continued)

Upon the issuance of CB5 on 10 November 2011, the Subscriber paid the proceeds of HK$550 million, which equaled to the total fair values of CB 5 (HK$429,448 thousand) and the derivative (HK$120,552 thousand) on that date. The related transaction cost of HK$3,469 thousand incurred was recorded as an expense (Note 7).

Upon conversion of CB5 (on the same date as the issue date, 10 November 2011), the carrying amount of CB5 of HK$429,448 thousand was transferred to the issued capital and premium.

The fair values of the derivative and CB5 were appraised by JLL, using generally accepted valuation methodologies, including but not limited to, the Binomial Lattice model.

The movements of CB5 for the year are as follows:

	2011
Fair value at issue date	**429,448**
Conversion to shares	**(429,448)**
At end of year	**–**

37. DERIVATIVE FINANCIAL ASSET

GROUP

	2011	2010
Call option on a non-controlling interest	**54,027**	55,894
	54,027	55,894

This derivative financial asset represents a call option to purchase in aggregate up to 40% of the equity interest (the "Interest") in Huarui Asset Management, at a price equivalent to the 90% of fair value of the Interest based on valuation by an independent property valuer. This call option was acquired in a transaction with a shareholder of the Interest and may be exercised by the Company more than once from time to time and at any time during the period of 2 years from May 2010.

The derivative financial asset is reported at fair value appraised by Greater China Appraisal Limited using generally accepted valuation methodologies, including but not limited to, the Binomial Lattice model.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

38. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

GROUP

	2011	2010
Advances received from the pre-sale of properties under development	2,565,079	4,546,137

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest-bearing. Business tax, generally calculated at a rate of 5% on the advances received, is imposed by the tax authorities.

39. TRADE PAYABLES

GROUP

An aged analysis of the trade payables as at the end of the reporting period, from the date when they were incurred, is as follows:

	2011	2010
Within 1 year	4,273,196	2,670,441
1 to 2 years	643,046	337,099
Over 2 years	342,782	351,091
	5,259,024	3,358,631

Trade payables represent payables arising from property construction and land development. The trade payables are non-interest-bearing and are normally settled within one year.

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

40. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
Payables for prepaid land lease payments	**839,078**	799,437	**–**	–
Receipts in excess of the Group's estimated share of land sales proceeds	**35,038**	75,770	**–**	–
Deposits received from and other payable to customers and construction companies	**158,638**	150,615	**–**	–
Business tax and surtaxes payable	**436,347**	389,870	**–**	–
Interest payable to a former non-controlling shareholder of a subsidiary	**6,095**	5,807	**–**	–
Payable to a non-controlling shareholder	**11,213**	–	**–**	–
Dividends payable to non-controlling shareholders of subsidiaries	**11,179**	10,651	**–**	–
Relocation costs payable	**6,423**	93,660	**–**	–
Deposits from stores, rents received for developers and public utility fees collected and paid for tenants	**49,063**	36,069	**–**	–
Estimated payables to contractors for Changchun project	**32,266**	133,601	**–**	–
Advance of public facility fee from government	**135,685**	–	**–**	–
Accruals for commission of golf club membership	**31,004**	29,535	**–**	–
Payroll and welfare payable	**14,759**	21,934	**–**	–
Accrued interest	**25,457**	20,029	**17,738**	15,250
Payables to former shareholders of a subsidiary for business combination	**12,335**	21,154	**–**	–
Payables to a former shareholder of a subsidiary for acquisition of a non-controlling interest	**20,970**	500,000	**–**	500,000
Payables in relation to international golf tournament	**25,450**	–	**–**	–
Obligation to construct a food market in Chengdu	**16,928**	–	**–**	–
Others	**133,425**	133,016	**1,328**	1,663
	2,001,353	2,421,148	**19,066**	516,913

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before tax to cash used in operations:

	Notes	2011	2010
Profit before tax		**738,203**	1,530,572
Adjustments for:			
Depreciation of property, plant and equipment		**190,682**	169,071
Bad debt provision – other receivables		**268,145**	21,256
Loss on disposal of property, plant and equipment, net		**23**	20,162
Share of profits of associates		**(6,845)**	(25,459)
Share of losses of jointly-controlled entities		**1,076**	–
Fair value (gain)/loss on derivative financial instruments		**(105,765)**	6,178
Loss on redemption of the Guaranteed Senior Notes		**–**	4,798
Fair value (gain)/loss on completed investment properties		**(140,780)**	135,864
Fair value loss on investment properties under construction		**11,190**	1,978
Gain on disposal of a subsidiary		**(309)**	–
Gain on bargain purchase of a subsidiary		**–**	(28,940)
Impairment of goodwill		**55,562**	–
Expenses incurred for the issuance of CB5		**3,469**	–
Dilution gain on associates		**–**	(375)
Management share option expenses		**6,340**	6,400
Expenses incurred for the listing of existing shares of a subsidiary		**–**	36,814
Finance income	8	**(148,028)**	(71,317)
Finance costs	9	**531,994**	312,946
		1,404,957	2,119,948

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	2011	2010
Decrease in restricted bank deposits	**93,043**	182,578
Decrease in other non-current assets	**1,004**	–
Increase in prepaid land lease payments	**(1,439,377)**	(1,322,442)
Increase in properties held or under development for sale	**(834,243)**	(648,277)
Decrease/(increase) in inventories	**12,730**	(9,068)
Decrease in amounts due from associates	**–**	1,354
Decrease/(increase) in prepayments and other current assets	**326,171**	(371,216)
Decrease/(increase) in other receivables	**23,414**	(112,600)
Decrease/(increase) in trade receivables	**553,129**	(167,808)
Increase/(decrease) in trade payables	**1,669,440**	(267,610)
Increase/(decrease) in other payables and accruals	**353,982**	(548,488)
Decrease in amounts due to associates	**–**	(11,358)
(Increase)/decrease in land development for sale	**(1,527,757)**	95,483
(Decrease)/increase in deferred income	**(382,888)**	265,538
Decrease in advances received from the pre-sale of properties under development	**(2,160,646)**	(556,104)
Cash used in operations	**(1,907,041)**	(1,350,070)

(b) Major non-cash transactions:

	2011	2010
Payables to the former shareholder of a subsidiary for acquisition of non-controlling interest (Note 40)	**20,970**	500,000
Prepayments used to settle purchase consideration for business combination	**–**	310,061
Payables to the former shareholder of a subsidiary for business combination (Note 40)	**12,335**	21,154

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42. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms mainly ranging from 1 to 20 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2011, the Group had total future minimum lease receivables under operating leases with its tenants falling due as follows:

GROUP

	2011	2010
Within one year	**117,106**	159,056
In the second to fifth years, inclusive	**323,525**	296,259
After five years	**68,591**	122,342
	509,222	577,657

The contingent rental income recognised in 2011 was HK$10,739 thousand (2010: HK$8,467 thousand).

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42. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years, and those for office equipment are for terms ranging between 2 and 5 years.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

GROUP

	2011	2010
Within one year	7,201	9,456
In the second to fifth years, inclusive	2,251	7,219
After five years	1,110	1,175
	10,562	17,850

COMPANY

	2011	2010
Within one year	5,255	5,257
In the second to fifth years, inclusive	876	6,132
	6,131	11,389

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43. COMMITMENTS AND CONTINGENCIES

(a) The Group and the Company had the following capital commitments and commitments in respect of land or property development for sale at the end of the reporting period:

	Group		Company	
	2011	2010	**2011**	2010
Contracted, but not provided for				
Investment property under construction	**9,962**	4,583	–	–
Land development for sale	**1,512,599**	2,423,583	–	–
Properties held or under development for sale	**2,485,241**	2,107,673	–	–
Property, plant and equipment and leasehold land	**1,607,050**	366,928	–	–
	5,614,852	4,902,767	–	–
Authorised, but not contracted for				
Investment property under construction	**192,323**	170,284	–	–
Land development for sale	**5,779,957**	5,618,624	–	–
Properties held or under development for sale	**1,641,516**	1,737,764	–	–
Property, plant and equipment and leasehold land	**3,445,562**	3,395,176	–	–
	11,059,358	10,921,848	–	–
	16,674,210	15,824,615	–	–

In addition, the Group's share of the jointly-controlled entities' own capital commitments is nil as at 31 December 2011.

(b) The Group provided guarantees in respect of the mortgage facilities granted by certain banks to the purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates of grant of the relevant mortgage loans and end when the purchasers pledge related properties certificates as securities to the banks for the mortgage loans granted by the banks.

The Group did not incur any material losses during the financial year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The Directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty, because the mortgage principals were normally below 70% of sales price of the properties at date of sales agreement, and therefore no provision has been made in connection with the guarantees.

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44. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2011, the Group disposed of its entire 100% interest in Wuxi Yongqing.

	18 October 2011 (unaudited)
Net assets disposed of:	
Prepaid land lease payments, current portion	488,261
Properties held or under development for sale	155
Cash and bank balances	2,124
Other payables and accruals	(466,179)
	24,361
Gain on disposal of a subsidiary (Note 6)	309
	24,670
Satisfied by cash	24,670

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2011
Cash consideration	24,670
Cash and bank balances disposed of	(2,124)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	22,546

45. RELATED PARTY TRANSACTIONS

GROUP

In addition to the related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties.

(a) Related party transactions during the year:

i) *Sales to and purchases from associates*

	2011	2010
Sale of goods to Broadband (i)	840	3,912
Purchase goods from New Technology (i)	9,832	3,052

(i) The sales were based on negotiated prices.

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45. RELATED PARTY TRANSACTIONS (continued)

GROUP (continued)

(a) Related party transactions during the year (continued):

ii) Loan guarantee

	2011	2010
The Group's bank and other borrowings guaranteed by Mr. Shi Jian (Chairman) (Note 32)	**902,171**	176,272

iii) Compensation of key management personnel of the Group

	2011	2010
Salaries and other short-term employee benefits	**24,901**	22,311
Share-based payments (Management Grant)	**3,064**	4,540
	27,965	26,851

iv) Sales of properties to key management personnel and their close family members of the Group

	2011	2010
Sales of properties	**1,738**	7,975
	1,738	7,975
Advance from customer-key management of the Group in relation of properties sales	**–**	1,653

The sales of properties were based on negotiated contract prices.

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

45. RELATED PARTY TRANSACTIONS (continued)

GROUP (continued)

(a) Related party transactions during the year (continued):

v) *Issuance of new shares*

In March 2011, the Company has allotted and issued 700 million new shares to SRE Investment Holding Limited, at the price of HK$0.81 per share.

vi) *Issuance of convertible bonds (CB5)*

In May 2011, the Company and SRE Investment Holding Limited entered into the CB5 Subscription Agreement. CB5 in the principal amount of HK$550 million was issued on 10 November 2011. On the date of issuance, SRE Investment Holding Limited converted CB5 to 550 million shares of the Company according to the terms of the CB5. Please see Note 36(b) for more details of the transaction.

The above subscription agreements and the Whitewash Waivers were approved by the Independent Shareholders by way of poll at the special general meeting ("SGM") on 27 January 2011 for item v) and 14 June 2011 for item vi), respectively.

The related party transactions in respect of item v) and vi) above constitute connected transactions entered into in 2011, as defined in Chapter 14A of the rules governing the listing of securities on the HKEx.

46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

GROUP

Financial assets	**2011**	2010
Loans and receivables		
– Amounts due from associates	**304**	8,113
– Other receivables	**945,266**	1,186,348
– Trade receivables	**188,173**	717,463
– Cash and bank balances	**2,521,487**	5,402,966
Financial assets at fair value through profit or loss		
– Derivative financial asset	**54,027**	55,894
	3,709,257	7,370,784

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

GROUP (continued)

Financial liabilities	**2011**	2010
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	**13,964,597**	12,032,582
– Guaranteed senior notes	**559,646**	557,322
– Convertible bonds – host debts	**515,814**	354,548
– Trade payables	**5,259,024**	3,358,631
– Others	**1,533,319**	2,009,344
	21,832,400	18,312,427

COMPANY

Financial assets	**2011**	2010
Loans and receivables		
– Dividends receivable from subsidiaries	**929,938**	886,004
– Advances to subsidiaries	**2,788,543**	2,153,125
– Cash and bank balances	**69,320**	158,162
	3,787,801	3,197,291

Financial liabilities	**2011**	2010
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	**1,124,880**	1,152,002
– Guaranteed senior notes	**559,646**	557,322
– Convertible bonds – host debts	**515,814**	354,548
– Others	**19,066**	516,913
	2,219,406	2,580,785

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47. FAIR VALUE AND FAIR VALUE HIERARCHY

Fair values of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. When an active market exists, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market or when current market prices are not available, fair value is determined using valuation techniques (Note 2.4).

The Group's financial assets mainly include cash and bank balances, receivables and derivative financial asset.

The Group's financial liabilities mainly include interest-bearing bank and other borrowings, guaranteed senior notes, convertible bonds and payables.

Except as indicated below, the fair values of the Group's and the Company's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and appropriate valuation models.

GROUP AND COMPANY

	2011		2010	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Guaranteed senior notes	**559,646**	**426,969**	557,322	493,621
Convertible bonds – host debts	**515,814**	**551,805**	354,548	443,726

The Group entered into derivative financial instrument in connection with issuance of CB5 (Note 36(b)) in 2011 and acquisition of non-controlling interest in one of its subsidiaries. As of 31 December 2011 and 2010, the derivatives are measured using generally accepted valuation techniques including the Binomial Lattice model. The model incorporates various inputs including the value of the underlying equity interest, volatility and the interest rate curves, etc. The carrying amounts of the derivatives were the same as their fair values.

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47. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:

Group

As at 31 December 2011

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Derivative financial asset (Note 37)	**–**	**–**	**54,027**	**54,027**

As at 31 December 2010

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial asset (Note 37)	–	–	55,894	55,894

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

47. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

The movements in fair value measurements in Level 3 during the year are as follows:

	2011	2010
Derivative financial asset		
At 1 January	**55,894**	–
Addition (relating to CB5 Subscription Agreement, Note 36(b))	**10,246**	62,072
Total gains/(losses) recognised in the income statement included in other losses, net	**105,765**	(6,178)
Settlement upon issuance of CB5 (Note 36(b))	**(120,552)**	–
Exchange realignment	**2,674**	–
At 31 December	**54,027**	55,894

During 2011, there were no transfers at fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2010: Nil).

Liabilities measured at fair value:

The Group did not have any financial liability measured at fair value as at 31 December 2011 and 2010.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, guaranteed senior notes, other interest-bearing loans, and cash and bank deposits. The main purpose of these financial instruments is to raise funds to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group does not enter into derivative transactions for trading purposes, the derivative instrument held by the Group is a call option held by the Group for a possible future acquisition of a non-controlling interest. The Group's accounting policies in relation to derivatives are set out in Note 2.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank and other borrowings. The Group does not use derivative financial instruments to manage its interest rate risk. The interest rates and terms of repayment of the borrowings are disclosed in Note 32.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings). The Group's and the Company's equity is not affected, other than the consequential effect on retained profits (a component of the Group's and the Company's equity) by the changes in profit before tax.

	Group		Company	
	2011	2010	**2011**	2010
	Impact on profit before tax	Impact on profit before tax	**Impact on profit before tax**	Impact on profit before tax
Changes in variables – RMB interest rate				
+ 50 basis points	**(63,200)**	(49,209)	**–**	–
- 50 basis points	**63,200**	49,209	**–**	–
Changes in variables – HK$ interest rate				
+ 50 basis points	**(6,541)**	(5,515)	**(6,541)**	(5,515)
- 50 basis points	**6,541**	5,515	**6,541**	5,515

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Most of the Group's operating entities operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk with only limited exposure arising primarily with respect to cash at banks, guaranteed senior notes, convertible bonds, bank borrowings, etc. denominated in United States dollars ("US$") or Hong Kong dollars ("HK$").

Renminbi is not a freely convertible currency. The conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and the HK$ exchange rates, with all other variables held constant, of the Group's and the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). The Group's and the Company's equity is not affected, other than the consequential effect on retained profits (a component of the Group's and the Company's equity) by the impact on profit before tax as disclosed below.

	Group		**Company**	
	2011	2010	**2011**	2010
	Impact on profit before tax	Impact on profit before tax	**Impact on profit before tax**	Impact on profit before tax
Changes in exchange rate of US$ against Renminbi				
+ 5%	**(25,642)**	(29,457)	**(28,294)**	(30,251)
– 5%	**25,642**	29,457	**28,294**	30,251
Changes in exchange rate of HK$ against Renminbi				
+ 5%	**(52,090)**	(67,598)	**(52,662)**	(73,097)
– 5%	**52,090**	67,598	**52,662**	73,097

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk arises from cash at banks, trade receivables, other receivables and amounts due from associates, the balances of which represent the maximum credit risk exposure of the Group. For the sale of developed properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks. Receivable balances are monitored on an on-going basis, other than the significant receivables in Note 27 and Note 28, there is no other significant concentration of credit risk within the Group as other debtors of the Group's receivables are widely dispersed and the majority of the Group's financial assets are cash at banks as at 31 December 2011.

The table below shows the maximum exposure to credit risk for the assets subject to credit risk at the end of the reporting period. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancement.

	Group		Company	
	2011	2010	**2011**	2010
Financial assets				
Derivative financial asset	**54,027**	55,894	**–**	–
Loans and receivables				
– Dividends receivable from subsidiaries	**–**	–	**929,938**	886,004
– Advances to subsidiaries	**–**	–	**2,788,543**	2,153,125
– Amounts due from associates	**304**	8,113	**–**	–
– Other receivables	**945,266**	1,186,348	**–**	–
– Trade receivables	**188,173**	717,463	**–**	–
– Cash at banks	**2,519,468**	5,401,072	**69,293**	158,147
Total credit risk exposure	**3,707,238**	7,368,890	**3,787,774**	3,197,276

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48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group maintains sufficient liquidity at all times with a financial planning system which is used to monitor the Group's future state of liquidity as is evident from the results of the Group's strategic and planning process. A 12-month forecast of fund requirements is updated monthly for the latest development.

Other than properties developed for sale, the Group also develops and holds properties for long-term operation, such as hotel properties and investment properties. Such long-term assets have constituted an increasing proportion of total assets in recent years, which bring liquidity risk to the Group. In order to mitigate the liquidity risk, the Group adjusted its financing strategy to get more long-term borrowings and increase equity, through the issuance of convertible bonds, as well as new shares.

The Group has developed strategic relationship with certain major state-owned banks that will normally provide financing to the Group when approval from the relevant government authorities for the commencement of a project is obtained. The Group also seeks financing from overseas markets through close cooperation with several world-wide bankers.

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

GROUP

	2011					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	201,996	210,312	4,844,532	8,501,091	3,215,380	16,973,311
Guaranteed Senior Notes	–	–	47,904	579,359	–	627,263
Convertible bonds	–	16,538	567,790	–	–	584,328
Trade payables	839,422	27,148	4,090,494	301,960	–	5,259,024
Others	70,925	63,094	330,462	1,043,226	155	1,507,862
	1,112,343	317,092	9,881,182	10,425,636	3,215,535	24,951,788

Notes to Financial Statements

31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

GROUP (continued)

	2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	201,060	147,017	3,602,461	6,935,031	3,667,940	14,553,509
Guaranteed Senior Notes	–	–	47,972	628,151	–	676,123
Convertible bonds	–	15,756	15,756	619,746	–	651,258
Trade payables	692,987	16,192	2,169,309	480,143	–	3,358,631
Others	298,666	3,916	681,214	999,426	6,092	1,989,314
	1,192,713	182,881	6,516,712	9,662,497	3,674,032	21,228,835

COMPANY

	2011					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest-bearing bank and other borrowings	**–**	**4,946**	**1,140,748**	**–**	**–**	**1,145,694**
Guaranteed Senior Notes	**–**	**–**	**47,904**	**579,359**	**–**	**627,263**
Convertible bonds	**–**	**16,538**	**567,790**	**–**	**–**	**584,328**
Others	**–**	**–**	**1,328**	**–**	**–**	**1,328**
	–	**21,484**	**1,757,770**	**579,359**	**–**	**2,358,613**

	2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	–	5,630	994,260	172,360	–	1,172,250
Guaranteed Senior Notes	–	–	47,972	628,151	–	676,123
Convertible bonds	–	15,756	15,756	619,746	–	651,258
Others	–	–	501,663	–	–	501,663
	–	21,386	1,559,651	1,420,257	–	3,001,294

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31 December 2011 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

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 adjust the dividend payment to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

As the Group is mainly engaged in the development of properties and large-scale new towns, it needs substantial amount of funds. The Group monitors capital using a gearing ratio, as defined by management for capital management purposes, which is net debt divided by the total capital plus net debt.

Net debt includes interest-bearing bank and other borrowings, Guaranteed Senior Notes and liability components (host debts) of convertible bonds and excludes trade and other payables. Equity includes equity attributable to owners of the parent and non-controlling interests. The gearing ratios are calculated as follows:

	2011	2010
Interest-bearing bank and other borrowings (Note 32)	**13,964,597**	12,032,582
Convertible bonds – host debts (Note 36)	**515,814**	354,548
Guaranteed Senior Notes (Note 33)	**559,646**	557,322
Less: Cash and bank balances (Note 29)	**(2,521,487)**	(5,402,966)
Net debt	**12,518,570**	7,541,486
Equity attributable to owners of the parent	**10,488,524**	8,544,783
Non-controlling interests	**2,485,979**	2,782,378
Capital	**12,974,503**	11,327,161
Capital and net debt	**25,493,073**	18,868,647
Gearing ratio	**49%**	40%

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2012.