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

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

Annual Report 2012

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

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

Independent Non-executive Directors:

CHOY Shu Kwan
CHENG Wing Keung, Raymond
CHUNG Lai Fong

COMPANY SECRETARY

CHEUNG Lin Shun

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SHARE LISTING

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

AUDITOR

BDO Limited
Certified Public Accountants

COMPANY'S WEBSITE

http://www.sfr59.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

32nd to 33rd Floors of HNA Tower
8 Linhe Zhong Road, Tianhe District
Guangzhou, Guangdong Province, the PRC
Telephone: (86-20) 2208 2888
Facsimile: (86-20) 2208 2777

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2502B, Tower 1, Admiralty Centre
18 Harcourt Road, Hong Kong
Telephone: (852) 2111 2259
Facsimile: (852) 2890 4459

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

LEGAL ADVISERS

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

CHAIRMAN'S STATEMENT

The year 2012 is a critical year to the Company when it managed to go along with the challenges and has put the business on track. Thanks to the solid demand for improved housing in the mainland market, the pre-sale performance of our ongoing development projects in Guiyang and Yongzhou has been satisfactory despite the global economic downturn experienced in the first half of the year driven by the sovereign debt problems in the euro zone.

To sustain steady revenue from property sales, the management concentrated its efforts on meeting key milestones in the Group's ongoing projects. Up to the date of this report, we have started the pre-sale of the first phase of Yongzhou Project in Hunan province, a new project which was initiated in early 2012 with construction commenced in the second quarter of that year. Pending pre-sale permits to be obtained for the remaining units, pre-sale activities in larger scale will be launched in the second quarter of the year 2013. The properties in the second phase of Guiyang project has been completed and delivered to the buyers, securing an aggregated revenue of RMB669 million to be booked in the first half of 2013, whilst the properties in the final phase of the project are under construction as scheduled. Our signature project in Zhoutouzui, Guangzhou, which is in full speed and has been moving to the foundation works, is planned to commence pre-sale in 2014.

We understand the importance of sustaining a steady business growth by keeping a reasonably sizable land bank that offers the Group the ability to deliver a promising and growing track in sales and earnings in the years to come. For this purpose, the management continues to search for new projects with potentials in earning and high velocity in sales. In first quarter in 2013, we have entered into a supplemental framework agreement with the city government of Liangqing District (良慶區) in Nanning, Guangxi province to develop a residential project of over GFA 1.1 million sq.m.. Construction will follow upon having obtained the land title which is scheduled in the second quarter of the year 2013. In the course of making acquisitions, we focus on regions with good economic prospects in the southern parts of the country, in particular those regions we have covered such as Guangzhou, Guizhou provinces, Guangxi and Hunan. We consider this expansion strategy suit our expertise and will be effective in the project management.

Counted in the areas for the development in Nanning Project and the forthcoming phases in Yongzhou Project comprising commercial complexes, street-front shops and residential properties that are in the pipeline, the Group holds development rights in respect of a total GFA of 3.6 million sq.m., securing the Group a foreseeable business outlook in the forthcoming years at least up to 2017.

The management is looking for an optimal level in debt and capital structure to suit our needs in the financing for project acquisitions. In the year 2012, the Group has completed a rights issue of shares and issued a corporate bond to a reputable investor, raising a total proceed of HK$667 million which were used to finance our expansion in new projects and working capital. Riding on a low leverage position compared with its peers and with an objective to strike an optimal level in borrowing levels whilst maximizing shareholders' interests at the same time, the Group has strengths in raising additional funds by corporate borrowing or equity from reputable financial institutions, or by means of inviting joint venture partners to participate in projects.

CHAIRMAN'S STATEMENT

We have been a prominent player on high-end properties in China and will continue our mission to serve our customers with dedicated products and heartfelt services. Our management team is growing in number and with higher profile and has demonstrated expertise in leading the Group in the correct directions set out by the directors. Besides, we truly appreciate the support extended to us during this critical year by our customers, contractors and suppliers and bankers. We wish to take this opportunity to express our sincere gratitude to these business partners, while reaffirming that we will endeavor to achieve our mission and remain a trustworthy developer.

Yu Pan
Chairman

Hong Kong, 15 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business review

For the year, the Group's total turnover was RMB54 million, representing a growth of 63% when compared with last year. The rise in revenue was attributable by property sales of RMB32 million in Phase 2 of Guiyang Project that were recorded as revenue when the Group started to hand over the properties to buyers near the close of the year, whilst sales in 2011 represented a small volume of remaining property units in Phase 1 sold in the year. Other than the sale of properties developed, the Group maintains a relatively steady income of RMB21 million for the year (2011: RMB19 million) from the leasing of the commercial floors at the Tianyu Garden Phase 2 and retail shops and car parks in Guiyang Project.

The gross margin of the sales of properties in the Guiyang Project for the year is 17.6%. When combined with the leasing business, due to the higher proportion of property sales made in the year that is of lower profitability as compared with leasing income, overall margin dropped to 42.4% for the year (2011: 47.9%).

Overall operating expenses for the year (comprising sales and marketing expenses plus administrative and other expenses) were decreased by 28% to RMB89 million. Excluding a non-recurring item of transaction costs incurred in the disposal of Tianhe Project in 2011, operating expenses for the year show a mild increase of 6%. The increase was mainly reflected in the increased staff costs, a major overhead content representing 48% of total operating expenses, as a result of the rise in headcount and pay levels. In addition, to boost the pre-sales performance of the Guiyang Project and Yongzhou Project in the year, marketing expenses rose to RMB15 million from RMB11 million.

Revaluation of investment properties of the Group leads to a gain in fair value change of RMB18 million for the year (2011: RMB15 million). However, to reflect the latest market value of the unsold car parking spaces in Guiyang Project, the development costs of the properties held for sale are marked down, leading to an impairment loss of RMB77 million (2011: Nil) recognised in the operating result for the year.

The Group has to bear higher finance costs for its indebtedness as compared with last year which are aggregated to a total of RMB79 million for the year (2011: RMB56 million), of which RMB69 million (2011: RMB47 million) were capitalised as development costs of projects under construction, resulting in net finance costs of RMB10 million (2011: RMB9 million) being charged to the operating result for the year.

The Group recorded a pre-tax operating loss of RMB114 million (2011: RMB69 million) and a post-tax loss for the year was RMB122 million (2011: RMB62 million). Loss attributable to shareholders of the Company amounted to RMB80 million (2011: RMB52 million).

At the end of the year, the Group has a land and property portfolio for development in the size of an aggregate GFA of approximately 1,100,000 sq.m., all under development of which an estimated completed units in total GFA of approximately 155,000 sq.m. can be delivered to customers in 2013. In addition, the Group is in the process of obtaining the land use right in a project in Nanning, Guangxi province. Together with the right to develop in the Yongzhou Project, the Group has right to develop a total GFA of approximately 3,600,000 sq.m. on mainland China. The property development in existing projects and projects in the pipeline are detailed as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

Properties held for or under development

Zhoutouzui Project

The project is held by a sino-foreign cooperative enterprise which is jointly controlled by the Company and two independent third parties, namely 廣州越秀企業（集團）公司 (Guangzhou Yuexiu Enterprise (Group) Company Limited), which is being withdrawn from the joint arrangement, and 廣州港集團有限公司 (Guangzhou Port Group Co., Limited), an original user of the land entitled to share 28% in GFA of the completed properties pursuant to a cooperative agreement entered into in 2001 that stipulates that the Group has to finance all construction costs of the entire development.

The development on the site of 43,609 sq.m. consists of 7 towers of residential apartments, offices, service apartments, underground car parking facilities and a commercial complex in a total GFA of approximately 320,000 sq.m.. The site, opposite to the renounced White Swan Hotel, offers a full waterfront view of the Pearl River. The project company has obtained the land use right certificate for the site and construction permit for Phase 1 in respect of a total GFA of 97,000 sq.m. where foundation works are in progress. It is expected that construction permits for the remaining approximately GFA of 223,000 sq.m. will be received in the second quarter of 2013 when at that time construction of the entire development will be commenced in full force.

Yongzhou Project

In late 2011, the Company entered into an agreement with the City Government of Yongzhou, Hunan province empowering certain subsidiaries, in which the Group holds 70% equity stake interest, to develop a composite property development project in Yongzhou. The entire project, offers a total site area of 1,000 mu on which a GFA of about 1.6 million sq.m., is planned to be developed into residential, commercial complex and retail shops. As a condition to the development, the project company is obligated to manage the remodelling works of certain scenic spots in the city surrounding the development sites. The entire project has a development period of 6 years.

The first phase of the development, named as Tianyu-huafu ("天譽•華府"), is built on a land of 106 mu in the city for the development of residential properties consisting of villas, apartments and retail shops in a total GFA of approximately 212,000 sq.m.. Construction was commenced in the second quarter of the year and marketed in the third quarter. Up to the year end, contracted sales amounting to RMB50 million, representing 65% of the GFA available for pre-sale, were achieved at an average selling price of approximately RMB3,220 per sq.m.. Remaining properties in the first phase are planned to be launched to the market throughout 2013 when the relevant pre-sale permits have been obtained. It is scheduled that construction of Tianyu-huafu will be completed throughout the periods from late 2013 to early 2015.

The management is planning to progress into new phases of the development project which consist of commercial complexes, street-front shops, hotel and residential properties, subject to the completion of clearance works on the land being performed by the district government.

Guiyang Project

The development, named as Tianyu City ("天譽城"), in which the Group holds a 55% stake, consists of high-end residential apartments of a total GFA of approximately 460,000 sq.m. of high-end residential apartments and GFA of approximately 132,000 sq.m. of commercial complex, community facilities and car parking spaces.

MANAGEMENT DISCUSSION AND ANALYSIS

The first phase of the development with GFA totalling 134,000 sq.m., completed in 2010, was totally sold out whilst that of Phase 2 has been recently completed and being handed over to customers starting from December 2012 of which sale revenue of RMB30 million was booked in 2012 whilst the remaining contracted sale proceeds of RMB669 million and completed properties in GFA of approximately 148,000 sq.m. are expected to be booked in the first half of the year in 2013 when all completed units are delivered to customers. The third phase of the project, consisting of five residential buildings with common facilities and car parking spaces of GFA of 245,000 sq.m., is under construction and is expected to be completed in 2014 and 2015. Two blocks of the apartments with GFA of approximately 63,000 sq.m. are on pre-sale, contracting an aggregated pre-sale revenue of RMB195 million, representing 67% in GFA at an average price of approximately RMB4,570 per sq.m., up to the year-end date.

Tianhe Project

The equity interest in the project was sold to a third party in late 2010 at a gross consideration of RMB1.09 billion before taking into account finance and other development costs that are to be borne by the Group that are yet to be ascertained. Construction costs of the project are to be borne by the purchaser whilst the Group resumes the role of a project manager. Payments totalling RMB845 million have been received from the purchaser so far. The agreement of the transaction also stipulates that the Group is to take up the responsibility in overruns of construction costs and indemnify the timely completion of the construction of the properties within the agreed timeline that is caused by factors under the control of the Group. Under these circumstances, the criteria for recognition of revenue arising from the disposal transaction set out in HKFRS has not been met despite the completion of the transaction in 2010. The associated costs cannot be ascertained at the moment and the revenue arising from the disposal has not been recognised and has been deferred to a time when substantial part of the associated costs can be ascertained reliably.

The construction of the Project was started in 2011 and the foundation works have been completed and two towers, consisting of a total GFA of approximately 113,000 sq.m. for a hotel, serviced apartments and offices, are being built on the site. The construction progress has been delayed beyond the originally agreed timeline due to the purchaser's failure to make due payments of contractors' costs. Nonetheless, the management perceives that the Group is honouring and has duly performed its obligations according to the conditions stipulated in the agreement that may otherwise subject to claims by the purchaser in the event of default. The Directors foresee no overruns in construction costs and finance costs in material aspects to which the Group is exposed and expect that construction will be completed in 2015, taking into account the current progress of the construction and assuming the purchaser making due payments from the date of this report, when the sale transaction can be recorded and gain from disposal recognised.

Nanning Project

In late 2012, the Group entered into a framework agreement with the city government of Wuxiang New District (五象新區) in Nanning, Guangxi province in relation to a residential development with a GFA of approximately 1,134,000 sq.m., consisting of GFA of approximately 825,000 sq.m. of residential and ancillary commercial and other facilities for sale, and GFA of approximately 277,000 sq.m. of compensated housing and commercial units for the resettlement of the original occupants of the land. Land use right is expected to be received upon completion of the land auction process in the second quarter of 2013, upon when the project can be commenced. The management plans to finance the start-up financing for the project of about RMB400 million by internal resources and thereafter the development will be financed by bank borrowing and pre-sale proceeds. It is expected that the project will take an investment period of about 4 years ending 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Properties held for leasing

Consisting of:

A 20,000 sq.m. commercial podium at Tianyu Garden Phase 2 in Tianhe District, Guangzhou. The property is now 82% occupied, tenanted with renowned corporations and a US consulate. Leasing income of RMB19 million was earned during the year (2011: RMB17 million). The property is classified as an investment property of the Group.

1,919 car parking spaces in Guiyang Phase 1 and 2 and retail shops. These leased properties are held for rental income. Leasing income totalling RMB2 million (2011: RMB2 million) was recorded as the Group's turnover. The properties are held ultimately for sale and are therefore classified as properties held for sale.

Outlook

In 2012, the global economy has been very volatile when continuously exposed to the European sovereign debt crisis that affected adversely the market sentiment. Coupled with the continuing stringent austerity measures taken by the central government of the PRC imposed on the real estate developers, it has been a difficult time in the year to get necessary financing for developers in general despite that the Group is not really badly affected due to its low gearing position and it successfully completed an issue of rights shares raising funds of net proceeds of approximately HK$364 million (equivalent to RMB297 million) and a term loan at corporate level of HK$298 million (equivalent to RMB242 million). These fund raising exercises result to an improved equity base of the Company and provide funds for the acquisition of new projects. In addition, operating subsidiaries have obtained bank facilities to the extent of RMB1,366 million to help the construction of three ongoing projects.

Starting from the last quarter of 2012 when the PRC economy starts to resume its economic growth, the US economy shows signs of recovery whilst the threats of the deteriorating economic performance of the euro zone are fading out, the market sentiment has been improving. Coupled with the solid demand for properties in the PRC real estate market as indicated by the rises in both selling prices and sale volume of properties late in the year, we believe that the worst scenario will not materialise but a brighter business outlook is well expected. Thanks to the improving liquidity in the capital market, we believe that new fund raising for project acquisition will be easier in the coming year. Nonetheless, whilst keeping on enlarging the Group's land reserve to ensure a steady growth in its business in the future years, the directors are posing a prudent but active approach in seeking suitable and affordable projects with earning potentials.

LIQUIDITY AND FINANCIAL RESOURCES

Capital structure and liquidity

As at 31 December 2012, the Group is indebted to PRC commercial banks for a working capital loan and construction loans totalling RMB107 million secured by land and property mortgages, one money market loan of US$18.6 million (equivalent to RMB117 million) secured by short-term bank deposits totalling RMB126 million, a secured loan with guaranteed return in the principal value of HK$298 million (equivalent to RMB242 million) and at fair value of RMB214 million together with warrants and guarantee issued to the lender at retrospective fair values of RMB6 million and RMB12 million, other unsecured borrowing due to a third party of RMB14 million, advances from minority shareholders of a subsidiary totalling RMB164 million and warrants at fair value of RMB1 million issued to an ex-bondholder. The indebtedness, exclusive of the money market loan that is secured back-to-back by bank deposits, summed up to RMB518 million, represents a decrease of RMB15 million when compared with the corresponding balance in last year. The decrease in indebtedness is explained by the early repayment in full of a secured bond of RMB152 million with the proceed raised from the rights issue in June 2012, net off by the effects of a new loan raised during the year for working capital and draw-downs of construction loans to finance the project development.

MANAGEMENT DISCUSSION AND ANALYSIS

The gearing ratio of the Group as at 31 December 2012 was 7.6% (2011: 14.7%), based on the net debt of HK$146 million (represented by total indebtedness of RMB635 million comprising bank and other borrowings, money market loan, secured loan, warrants and advances from minority shareholders, net of cash and bank balances and bank deposits securing for the money market loan) to the equity attributable to equity holders plus net debt as at 31 December 2012. The ratio dropped as a reflection of the higher free cash level maintained by the Group as at the year-end date and the equity as enlarged by the rights issue of shares raising a gross proceed of approximately RMB301 million during the year.

Total current assets amounted to RMB3,294 million as at 31 December 2012, representing an increase of RMB238 million when compared with the previous year-end date. Current assets comprise properties held under development in Zhoutouzui, Yongzhou and Guiyang of RMB1,691 million, completed properties held for sale in Guiyang Project of RMB667 million, consideration receivable for the disposal of Tianhe Project of RMB117 million, cash on hand and bank balances of RMB363 million, restricted bank balances of RMB252 million used to secure for the money market and construction loan facilities and construction of pre-sold properties, and deposits made to contractor of Zhoutouzui project and other deposits totalling RMB204 million.

Total current liabilities amounted to RMB1,434 million as at 31 December 2012, steady at the same level of 2011. The current liabilities comprise mainly pre-sale deposits of RMB806 million, money market loan, an unsecured loan due to a third party and the current portion of the working capital loan due to commercial banks totalling RMB138 million, advances from non-controlling shareholders of a subsidiary of RMB164 million and miscellaneous items consisting of trade payables, accruals and income tax payable.

The current ratio at the current year-end shows a slight improvement to 2.30 times (2011: 2.14 times).

Borrowings and pledge of assets

As at 31 December 2012, to secure for banking facilities totalling RMB1,216 million granted to operating subsidiaries to finance for working capital and construction costs by a commercial bank in mainland China, mortgages of property interests in Tianyu Garden Phase II, works in progress and land of two projects under development, and a temporary lien over a bank deposit of RMB85 million for a proposed banking facility of RMB150 million to finance the construction of phase three of Guiyang Project, were created in favour of the lending bank. Besides, to secure for the completion of construction of the Guiyang Project, bank deposits of money received from property buyers in pre-sales of approximately RMB41 million were restricted to the payments of construction costs of properties under construction. To secure the back-to-back guarantee given by a local bank in mainland China created in favour of a Hong Kong-based bank for a money market loan facility of US$18.6 million, bank deposits of approximately RMB126 million were placed in the bank accounts in mainland China as a security. The secured loan with guaranteed return in the principal value of HK$298 million made during the year was secured by a share charge over the entire issued shares of Guangzhou Zhoutouzui Development Limited, the holding company of Guangzhou Yucheng Real Estate Development Company Limited (廣州市譽城房地產開發有限公司).

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Currency Management

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

Movements of RMB against HK and US dollars are in small steps during the year. The Group incurred a small foreign exchange loss of RMB0.02 million arises on consolidation of the assets and liabilities of the Hong Kong subsidiaries that was charged against the foreign exchange reserve amounting to a balance of RMB0.4 million as at 31 December 2012 that is added to the equity of the Company. The directors perceive that RMB will continuously move in upward trend against the US and HK dollars and foresee the Group has no significant adverse foreign currency exposure in the future throughout the maturity periods of the related loans and bonds. In the event of a depreciation of RMB against these foreign currencies, given the low levels of loans, such fluctuations will not have material unfavourable effect on the financial position of the Group. For these reasons, the Group does not hedge against its foreign currency risk. However, the management will monitor the currency exposures from time to time for any permanent or significant changes in the exchange rates in RMB against the HK and US dollars that may lead to adverse impact on the Group's results and financial position.

Contingent Liabilities

The Group provides guarantees to the extent of RMB386 million as at 31 December 2012 (2011: RMB383 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, in the event of default in mortgage loan payments by these purchasers, the Group is responsible for repaying the outstanding mortgage loans together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates to the property purchasers.

EMPLOYEES

To keep pace with the growth of the Group when more projects are under development, the Group is recruiting suitable staff in capable caliber from time to time. As at 31 December 2012, the Group employed 236 staff (excluding Executive Directors of the Company) in various positions in property development on the sites where projects are developed and in the offices in Guangzhou and Hong Kong. Employees are remunerated according to qualifications and experience, job nature and performance. Remuneration packages offered to employees are competitive and aligned with the job markets in the business territories stationed by the staff.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

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

Aged 48, joined the Company in December 2004 when he took control of the Company through acquisition of a controlling interest in the Company. Mr. YU has over 23 years of experience in the development of high-end residential, commercial and hotel projects in the PRC. He is a founder of the prestigious real estate company, Guangzhou Tianyu Real Estate Development Company Limited, which was set up in July 1997 from which the Company acquired some projects in 2007. Mr. YU also acts as the chief executive officer of the Company, overseeing the strategic planning and corporate development of the Group.

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

Aged 41, joined the Company in August 2011 and was appointed as executive director in September 2011. Mr. SIU graduated from Beijing Normal University（北京師範大學）and holds a Bachelor's Degree in Chinese Language. He is also a postgraduate in Economic Law from Southwest University of Political Science and Law（西南政法大學）in Chongqing, the PRC. Mr. Siu has vast experience of over 19 years in business sector and worked in senior posts in certain property development related businesses and an environmental protection enterprise in the PRC.

Mr. WONG Lok

Aged 55, joined the Company in August 2005. Mr. WONG has over 27 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOY Shu Kwan

Aged 58, joined the Company in December 2004. Mr. CHOY holds a Master degree in Business Administration and has over 27 years of extensive experience in banking and investment management. He worked for the CITIC group for 20 years in Hong Kong. Before his resignation in 2007, he was the managing director of CITIC Capital Markets Limited. Mr. CHOY is also an independent non-executive director of Poly Property Group Co., Limited (formerly known as Poly (Hong Kong) Investments Limited.), a company listed on the Main Board of the Stock Exchange.

Mr. CHENG Wing Keung, Raymond

Aged 53, joined the Company in December 2004. Mr. CHENG is a practising solicitor in Hong Kong. He holds an honour degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. CHENG also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, PRC. He has over 25 years of experience in corporate, company secretarial and listing affairs. Mr. CHENG is an independent non-executive director in two other listed companies in Hong Kong, namely Emperor Capital Group Limited and Sino Resources Group Limited.

Ms. CHUNG Lai Fong

Aged 45, joined the Company in December 2004. Ms. CHUNG is a practising barrister in Hong Kong. She holds a Bachelor of Laws (Honours) degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws degree in Chinese Law. Ms. CHUNG is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 17 years of professional experience in accounting, taxation, company secretarial, legal, regulatory and corporate affairs. Ms. CHUNG is also an independent non-executive director of Far City Mining Limited, a company listed on Canadian National Stock Exchange.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Ms. CHEUNG Lin Shun

Aged 50, joined the company in March 2005. Ms. CHEUNG is a professionally qualified accountant in Hong Kong and is in charge of the corporate finance, accounting and company secretarial matters at the corporate level of the Group. She holds a Master degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. CHEUNG is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 27 years of experience in auditing, corporate secretarial, accounting and corporate finance obtained from an international accounting firm and a number of listed companies in Hong Kong.

SENIOR MANAGEMENT

Mr. WEN Xiao Bing

Aged 44, is the Deputy Chief Executive Officer of the Group and Chief Executive of Guangzhou head office in charge of overall management of the property development and investment business in the PRC. Mr. WEN holds a Bachelor Degree in History from Beijing University（北京大學）and is a professionally qualified economist specialized in labor economics in the PRC. He has over 22 years of working experience in managerial positions in corporations in the PRC.

Mr. LIN Sheng Jie

Aged 47, is the Deputy Chief Executive of Guangzhou head office in charge of all general financial operations in the PRC. Mr. LIN is a Bachelor Degree graduate in finance and accountancy of Guangdong University of Business Studies（廣東商學院）and has over 22 years of working experience in the finance and accounting in property development, finance and hotel investment in the PRC, Thailand and Hong Kong.

Mr. LI Le Wei

Aged 56, is the Deputy Chief Executive of Guangzhou head office in charge of overall operations of Yongzhou project. Mr. LI graduated from Guangdong Radio & TV University（廣東廣播電視大學）and has over 25 years of working experience in hotel and property management in Guangzhou.

Ms. YUAN Hong Fang

Aged 41, is the Deputy Chief Executive of Guangzhou head office in charge of contract and legal matters of Guangzhou head office. Ms. YUAN graduated from Lingnan College, Sun Yat-sen University（中山大學嶺南學院）and holds a Master Degree in Business Management. She has over 18 years of working experience in finance, administration in the property management industry.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhance its corporate governance standards by emphasizing transparency, independence, accountability, responsibility and fairness. The Company performs its corporate governance duties through the Board of Directors (the "**Board**") and various committees with designated functions.

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2012 financial statements, in compliance with the revised Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as well as the former Code on Corporate Governance Practices except for code provision A.2.1, where the roles of chairman and chief executive officer of the Company is not separated as required but is currently performed by the same individual. Explanation on the deviation is elaborated below under the heading of "Chairman and Chief Executive Officer".

BOARD OF DIRECTORS

As at 31 December 2012, the Board comprised six Directors as follows:

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

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

The terms of service of all the Independent Non-executive Directors are one year and are subject to automatic renewal and retirement provision in the bye-laws of the Company.

The Board held six meetings in 2012. The record of attendance of each Director is as follows:

Name of Director	Number of Board Meetings Attended
Executive Directors	
Mr. YU Pan *(Chairman and Chief Executive Officer)*	6/6
Mr. SIU Shawn *(Deputy Chief Executive Officer)*	6/6
Mr. WONG Lok	4/6
Independent Non-executive Directors	
Mr. CHOY Shu Kwan	6/6
Mr. CHENG Wing Keung, Raymond	6/6
Ms. CHUNG Lai Fong	5/6

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

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

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

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated financial statements on a going concern basis which give a true and fair view of the state of affairs of the Group in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance.

DIRECTORS' SECURITIES TRANSACTIONS

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

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Company has provided funding to encourage the Directors to participate in professional development courses and seminars to develop and refresh their knowledge and skills. During the year ended 31 December 2012, regulatory updates and relevant materials on amendment of Listing Rules were sent to the Directors for their awareness of the latest development on statutory requirements.

CORPORATE GOVERNANCE REPORT

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT (Continued)

The training each Director received during the year ended 31 December 2012 is summarized as below:

Name of Director	Reading materials regarding regulatory update and corporate governance matters	Attending seminars/in-house workshops relevant to the Company's business, Listing Rules compliance and risk management
Executive Directors		
Mr. YU Pan *(Chairman and Chief Executive Officer)*	✓	–
Mr. SIU Shawn *(Deputy Chief Executive Officer)*	✓	✓
Mr. WONG Lok	✓	–
Independent Non-executive Directors		
Mr. CHOY Shu Kwan	✓	✓
Mr. CHENG Wing Keung, Raymond	✓	✓
Ms. CHUNG Lai Fong	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

CORPORATE GOVERNANCE FUNCTIONS

The board has established three Board committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website at www.hkex.com and the Company's website at www.sfr59.com.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice at the Company's expense.

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Code which includes the following:

(i) to develop, review and monitor the Group's policies on corporate governance and compliance with legal and regulatory requirement;

(ii) to review and monitor the training and continuous professional development of directors and senior management;

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS (Continued)

(iii) to develop, review and monitor the code of conduct applicable to the employees and Directors; and

(iv) to review the Group's compliance with the corporate governance code and disclosure requirements in the Corporate Governance Report.

The Board has reviewed the Corporate Governance Report to ensure its compliance with the disclosure requirement as set out in the Appendix 14 to Listing Rules. The Company has defined its policy on disclosure of price sensitive information which has been reviewed by the Board in a meeting held on 15 March 2013.

The Board has also reviewed the effectiveness of the internal control system of the Group through regular interaction with the Audit Committee and the routine checking of control procedures by the Internal Audit Department.

REMUNERATION COMMITTEE

As at 31 December 2012, the Remuneration Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong (Chairman of the Remuneration Committee).

The Remuneration Committee held one meeting in 2012 and all the members attended the meeting. The matters discussed included (i) the review and approval of the adoption of remuneration policy of the Guangzhou head office; and (ii) the review of incentive bonus paid to Directors and senior management for 2011.

The major roles and functions of the Remuneration Committee are as follows:

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

As at 31 December 2012, the Nomination Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board and Nomination Committee) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

The Nomination Committee held one meeting in 2012 and all members attended. The matters discussed included the recommendation of retiring Directors for re-election in 2012 Annual General Meeting.

The major roles and functions of the Nomination Committee are as follows:

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

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

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

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

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

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

AUDIT COMMITTEE

As at 31 December 2012, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. CHOY Shu Kwan (Chairman of the Audit Committee), Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

The Audit Committee held three meetings in 2012 and all members attended. The matters discussed in the meetings included: (i) to review the financial statements for the year ended 31 December 2011 and the six months ended 30 June 2012 before submission to the Board for approval; (ii) to consider the findings disclosed in the bi-annual internal audit reports prepared by the Internal Audit Department; (iii) to review the effectiveness of the Group's internal controls with discussion with the Chief Internal Auditor; (iv) to review the 2013 work plan of Internal Audit Department; and (v) to discuss with the external auditor the early adoption of revised Hong Kong Financial Reporting Standards during the year ended 31 December 2012 and its impact on the Group's financial statement. The external auditor were present at the meetings held on 21 March 2012 and 19 December 2012 and presented their findings to the committee members on the audit of the financial statements for the year ended 31 December 2011 and discussed about the potential impact from the early adoption of the revised Hong Kong Financial Reporting Standards.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (Continued)

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

1. to review the integrity of accounts and financial reporting procedures;
2. to review and oversee the effectiveness of internal control systems;
3. to appoint external auditors and assess their qualifications, independence and performance; and
4. to review periodically the Company's and the Group's accounts for compliance with applicable accounting standards, legal and regulatory requirements on financial disclosures.

In a meeting held on 21 March 2012, the Audit Committee reviewed the annual results for the year ended 31 December 2011.

AUDITOR'S REMUNERATION

Messrs. BDO Limited was re-appointed by the shareholders as the Company's auditor during 2012. Their engagement of the audit for 2012 was reviewed and approved by the Audit Committee on a meeting held on 19 December 2012.

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

Nature of service	**Fees** *(Renminbi)*
Audit services	
– Current year	826,000
Non-audit services	
– Non-recurring engagement in relation to rights issue *(note)*	258,000
– Others	24,000
Disbursements	53,000
TOTAL	**1,161,000**

Note: The services provided was for the view of a statement of indebtedness and working capital forecast of the Company in connection with the Company's circular dated 6 June 2012 in relation to the rights issue of the Company.

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has defined policy to govern the release of price sensitive information to the public in an equal, timely and effective manner to enable shareholders easy appraisal of the Company's performance and business development. The Company has made prompt releases of information about the business and other affairs of the Group to the public and announced its annual and interim results in a timely manner within the time limits as laid down in the Listing Rules.

The memorandum of association and bye-laws of the Company are posted on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.sfr59.com) for shareholders' and investors' information.

The 2013 annual general meeting will be held at *Empire Room 1, 1st Floor, Empire Hotel Hong Kong•Wanchai, 33 Hennessy Road, Wanchai, Hong Kong on Monday, 13 May 2013 at 3:00 p.m.*.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

To protect the rights of shareholders to have reasonable involvements in the Company's affairs, the bye-laws of the Company and applicable laws in Bermuda (the place of incorporation of the Company) provide shareholders the following rights about the holding of general meetings of the Company:–

Rights to convene a special general meeting

Pursuant to bye-law 58 of the Company, members of the Company, holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of each requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Procedures for putting forward proposals at shareholders' meeting

Subject to Section 79 of The Companies Act 1981 of Bermuda, it shall be the duty of the Company, on the requisition in writing of (i) either any number of members representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than one hundred members, at the expense of the requisitionists:

(a) to give to members of the company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and

(b) to circulate to members entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

Notice of any such intended resolution shall be deposited to the registered office of the Company or its Hong Kong office not less than six weeks before the meeting (in the case of a requisition requiring notice of a resolution); and not less than one week before the meeting (in the case of any other requisition) together with a sum reasonably sufficient to meet the company's expenses in sending the notice.

Upon receiving the requisition, the Company would take appropriate actions and make necessary arrangements in accordance with the requirements under the provision of the Company's bye-laws and Sections 79 and 80 of The Companies Act 1981 of Bermuda.

Company's contact details

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

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

The Board has overall responsibilities for maintaining sound and effective internal control systems of the Group whilst the internal audit department is the designated department set up to ensure these systems are functioning. The Group's system of internal control includes a defined management structure with clear lines of reporting, limits of authority that are designed to help the Group achieve its business strategies, identify significant business risks, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information, and comply with relevant laws and regulations. Overall, the internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage failure in material aspects in the Group's operations for the achievement of the Group's business strategies.

The Chief Internal Auditor reports to the Board through the Audit Committee with findings on regular internal audits and makes recommendations on the internal control systems. Interim and annual internal audit reports issued by the internal audit department during the year 2012 have been discussed and reviewed by the Audit Committee. While noting no material issues, the Chief Internal Auditor has identified areas for improvements and recommends remedial actions to be taken that are being followed up by the management team.

DIRECTORS' REPORT

The Directors herein present their annual report together with the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries during the year are property development, property investment, hotel operation and provision of related ancillary services.

SEGMENT INFORMATION

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 32.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012.

SHARE CAPITAL

During the year ended 31 December 2012, the Company has issued an additional 738,843,725 shares of the Company by way of rights issue, enlarging the Company's total shares in issue to 2,216,531,175 shares.

Details of the Company's share capital during the year are set out in note 38 to the financial statements.

SHARE OPTIONS

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

On 22 August 2006 and 11 August 2011, the Company granted 63,850,000 and 26,000,000 options respectively to subscribe for the Company's shares under the 2005 Scheme. During the year ended 31 December 2012, 13,213,097 options were lapsed due to resignation of holders of such options. Upon the completion of the rights issue of the Company in June 2012, the respective exercise prices and numbers of options outstanding have been adjusted according to the provisions of the 2005 Scheme. As a result of the adjustments, there were in total 61,410,279 share options outstanding as at 31 December 2012. Details of the share option scheme are set out in note 40 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 39 to the financial statements.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2012, the Company does not have reserve (net of the Company's contributed surplus) available for cash distribution and/or distribution in specie as computed in accordance with generally accepted accounting principles of Hong Kong. The Company's share premium account in the amount of approximately RMB1,507,182,000 can be distributed in the form of fully paid bonus shares.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 17 to the financial statements.

WARRANTS

Details of movements in warrants issued by the Group are set out in note 34 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 13.9% and 25.7%, respectively, of the Group's total sales for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 33.2% and 81.8%, respectively, of the Group's total purchases for the year.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

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

DIRECTORS' REPORT

DIRECTORS AND THEIR SERVICE CONTRACTS

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

Executive Directors
Mr. YU Pan *(Chairman and Chief Executive officer)*
Mr. SIU Shawn *(Deputy Chief Executive Officer)*
Mr. WONG Lok
Mr. LAU Yat Tung, Derrick *(Former Deputy Chairman, office terminated on 9 January 2012)*

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

Mr. YU Pan and Mr. CHOY Shu Kwan will retire from office at the forthcoming annual general meeting and being eligible, will offer themselves for re-election in accordance with clause 87(1) of the Company's bye-laws and the Corporate Governance Code.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

DIRECTORS' REPORT

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

As at 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in the Appendix 10 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), to be notified to the Company and the Stock Exchange, are as follows:

(a) Interests in the Shares or underlying Shares

Name of Director	Company/ Associated corporation	Capacity	Number of Shares or underlying Shares	Approximate shareholding percentage *(note 2)*
Mr. YU Pan	Company	Interest of controlled corporation and/or beneficial owner	1,587,168,407 (long) 42,764,000 (short) *(note 1)*	71.61% 1.93%
Mr. SIU Shawn	Company	Beneficial owner	6,238,000 (long)	0.28%

Notes:

1. These Shares comprised (i) 141,504,000 existing Shares; and (ii) 1,445,664,407 existing Shares held directly by Grand Cosmos Holdings Limited ("**Grand Cosmos**"). The entire issued share capital of Grand Cosmos was held by Sharp Bright International Limited ("**Sharp Bright**"), the entire issued share capital of which was held by Mr. YU Pan. The 1,445,664,407 Shares were charged in favour of CCB International Securities Limited ("**CCB Securities**") by way of a share charge dated 19 June 2012. In addition, Grand Cosmos has issued warrants to CCB Securities to purchase Shares from Grand Cosmos in aggregate of HK$25,000,000 at a purchase price of HK$0.5846 for 42,764,000 Shares.

2. For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 2,216,531,175 Shares in issue as at 31 December 2012.

DIRECTORS' REPORT

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

(b) Interests in underlying Shares arising from share options

As at 31 December 2012, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the 2005 Scheme:

Name of Director	Exercise price (adjusted) *(HK$)*	Exercise period	Number of underlying Shares	Approximate shareholding percentage *(note)*
Mr. SIU Shawn	0.6714	11 August 2012 to 10 August 2021	5,213,097	0.24%
Mr. CHOY Shu Kwan	1.2565	13 March 2007 to 31 July 2015	625,571	0.03%
Mr. CHENG Wing Keung, Raymond	1.2565	13 March 2007 to 31 July 2015	625,571	0.03%
Ms. CHUNG Lai Fong	1.2565	13 March 2007 to 31 July 2015	625,571	0.03%

Note:

1. As a result of the issue of 738,843,725 Shares by way of rights on the basis of one rights Share for every two Shares in issue and held on 31 May 2012 (the "**Rights Issue**") and in compliance with Rule 17.03(13) of the Listing Rules, the exercise price and the number of Shares to be issued under the outstanding Share Options were adjusted under the terms of 2005 Scheme with effect from 28 June 2012 when the Rights Issue was completed.

2. For the purpose of this section, the percentage of shareholding in the Company was calculated on the basis of 2,216,531,175 Shares in issue as at 31 December 2012.

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2012, Mr. YU Pan, the Chairman of the Company, is also a director and substantial shareholder of a company listed on the Shenzhen Stock Exchange, namely 綠景控股股份有限公司 (Lujing Holding Co., Ltd.) which is engaged in the residential real estate development business in the mass market in the PRC. Save as the aforesaid, none of the Directors and his/her respective associates had any interests in any business, which competes or is likely to compete, either directly or indirectly, with the Company's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules).

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

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

At 31 December 2012, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Interests in the Shares or underlying Shares

Name of Shareholder	Capacity	Number of Shares and underlying Shares		Approximate percentage *(note 3)*
Sharp Bright	Interest of controlled corporation	1,445,664,407 42,764,000 *(note 1)*	(long) (short)	65.22% 1.93%
Grand Cosmos	Beneficial owner	1,445,664,407 42,764,000 *(note 1)*	(long) (short)	65.22% 1.93%
Central Huijin Investment Ltd. ("**Huijin**")	Interest of controlled corporation	1,503,748,407 *(note 2)*	(long)	67.84%
China Construction Bank Corporation ("**CCB**")	Interest of controlled corporation	1,503,748,407 *(note 2)*	(long)	67.84%
CCB International Group Holdings Limited ("**CCB Holdings**")	Interest of controlled corporation	1,503,748,407 *(note 2)*	(long)	67.84%
CCB Financial Holdings Limited ("**CCB Financial**")	Interest of controlled corporation	1,503,748,407 *(note 2)*	(long)	67.84%
CCB International (Holdings) Limited ("**CCB International**")	Interest of controlled corporation	1,503,748,407 *(note 2)*	(long)	67.84%
CCB Securities	Beneficial owner and person having a security interest in shares	1,488,428,407 *(note 2)*	(long)	67.15%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS (Continued)

Interests in the Shares or underlying Shares (Continued)

Notes:

1. The 1,445,664,407 existing Shares were held directly by Grand Cosmos. Grand Cosmos has issued warrants to CCB Securities to purchase Shares from Grand Cosmos in aggregate of HK$25,000,000 at a purchase price of HK$0.5846 for 42,764,000 Shares. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. YU Pan, Mr. YU Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. The 1,445,664,407 Shares were charged in favour of CCB Securities by way of a share charge dated 19 June 2012.

2. These Shares comprised (i) 1,445,664,407 Shares charged in favour of CCB Securities by Grand Cosmos; (ii) 15,320,000 underlying Shares which would be issued upon exercise of the subscription rights attaching to the warrants issued by the Company to Lang Xing Investments Limited ("**Lang Xing**") at an adjusted subscription price of HK$0.6527; and (iii) 42,764,000 underlying Shares which would be transferred upon exercise of purchase rights attaching to the warrants issued by Grand Cosmos to CCB Securities at a purchase price of HK$0.5846. Lang Xing is a wholly owned subsidiary of CCB International Asset Management Limited ("**CCB Asset**"). Both CCB Asset and CCB Securities are wholly-owned subsidiaries of CCB International, which is in turn a wholly owned subsidiary of CCB Financial, which is in turn a wholly-owned subsidiary of CCB Holdings, which is in turn a wholly-owned subsidiary of CCB (stock code: 00939), the shares of which are listed on the main board of the Stock Exchange. CCB is owned as to 57.13% by Huijin. Accordingly, Huijin was deemed to be interested in the Shares in which CCB, CCB Holdings, CCB Financial, CCB International, CCB Securities, CCB Asset and Lang Xing were interested by virtue of the SFO.

3. For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 2,216,531,175 Shares in issue as at 31 December 2012.

Save as disclosed above, as at 31 December 2012, the Company had not been notified by any persons or corporations who had long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

CONNECTED TRANSACTIONS

Save as the transactions stated in note 47 to the consolidated financial statements, none of the Directors, substantial shareholders or controlling shareholders of the Company and their respective associates was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at 31 December 2012 which was significant in relation to the business of either the Group or has any material personal interest.

CORPORATE GOVERNANCE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2012 financial statements, in compliance with the revised Corporate Governance Code as set out in Appendix 14 of the Listing Rules as well as the former Code on Corporate Governance Practices except for code provision A.2.1, where the roles of chairman and chief executive officer of the Company is not separated as required but is currently performed by the same individual.

DIRECTORS' REPORT

CORPORATE GOVERNANCE (Continued)

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

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Company has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from all Directors to confirm compliance with the Model Code throughout the year ended 31 December 2012.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

RETIREMENT BENEFITS SCHEMES

Particulars of the retirement benefits schemes of the Group are set out in note 42 to the financial statements.

PRE-EMPTIVE RIGHTS

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 111.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

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

On behalf of the Board

YU Pan
Chairman

Hong Kong, 15 March 2013

INDEPENDENT AUDITOR'S REPORT

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

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

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 32 to 110, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants
CHAN Wing Fai
Practising Certificate Number P05443

Hong Kong, 15 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	7	**53,803**	32,951
Cost of sales and services		**(31,006)**	(17,157)
Gross profit		**22,797**	15,794
Other income and gains, net		**672**	17,343
Sales and marketing expenses		**(15,187)**	(10,994)
Administrative and other expenses		**(73,453)**	(112,908)
Fair value changes in investment properties	17	**18,000**	15,000
Write-down of properties held for sale		**(77,375)**	–
Fair value changes in financial derivative liabilities		**2,352**	(1,510)
Finance costs	8	**(10,092)**	(8,746)
Finance income	8	**18,513**	16,592
Loss before income tax	9	**(113,773)**	(69,429)
Income tax (expense) credit	13	**(8,157)**	7,600
LOSS FOR THE YEAR		**(121,930)**	(61,829)
Other comprehensive income:			
Exchange differences arising on foreign operations		**24**	(26)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(121,906)**	(61,855)
Loss for the year attributable to:			
– Owners of the Company	14	**(79,976)**	(51,861)
– Non-controlling interests		**(41,954)**	(9,968)
		(121,930)	(61,829)
Total comprehensive income for the year attributable to:			
– Owners of the Company		**(79,952)**	(51,887)
– Non-controlling interests		**(41,954)**	(9,968)
		(121,906)	(61,855)
Loss per share (2011 restated)	15		
– Basic		**(RMB0.041)**	(RMB0.034)
– Diluted		**(RMB0.043)**	(RMB0.034)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	17	**6,720**	6,531
Investment properties	18	**513,000**	495,000
Properties under Tianhe Project	19	**765,064**	765,059
Goodwill	20	**13,554**	13,554
Deposit paid for acquisition of leasehold/investment property	23	**17,432**	–
Consideration receivable – non-current portion	24	**94,078**	81,290
		1,409,848	1,361,434
Current assets			
Properties under development	25	**1,691,320**	1,917,289
Properties held for sale	26	**666,640**	106,717
Consideration receivable – current portion	24	**116,685**	111,809
Loan to non-controlling shareholder of a subsidiary	28	**–**	5,100
Trade and other receivables	29	**203,804**	158,488
Restricted and pledged deposits	30	**252,320**	556,213
Cash and cash equivalents	31	**363,203**	200,211
		3,293,972	3,055,827
Current liabilities			
Trade and other payables	32	**244,934**	125,755
Properties pre-sale deposits		**806,355**	476,955
Bank and other borrowings – current portion	34	**138,271**	567,480
Financial derivative liabilities	34	**19,191**	4,355
Loans from non-controlling shareholders of a subsidiary	35	**163,600**	168,420
Income tax payable		**62,098**	83,087
		1,434,449	1,426,052
Net current assets		**1,859,523**	1,629,775
Total assets less current liabilities		**3,269,371**	2,991,209

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Bank and other borrowings – non-current portion	34	**313,975**	218,080
Consideration from disposal of Tianhe Project	36	**977,431**	977,431
Deferred tax liabilities	37	**175,048**	170,548
		1,466,454	1,366,059
Net assets		**1,802,917**	1,625,150
Capital and reserves			
Share capital	38	**21,068**	15,040
Reserves	39	**1,763,365**	1,549,672
Equity attributable to owners of the Company		**1,784,433**	1,564,712
Non-controlling interests		**18,484**	60,438
Total equity		**1,802,917**	1,625,150

On behalf of the Board

YU Pan
Director

SIU Shawn
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Interests in subsidiaries	21	**2,365,038**	2,488,534
Current assets			
Amounts due from subsidiaries	21	**139,942**	110,023
Prepayments and other receivables		**400**	322
Cash and cash equivalents	31	**14,057**	1,986
		154,399	112,331
Current liabilities			
Accruals and other payables		**5,657**	3,316
Amounts due to subsidiaries	21	**726,511**	1,068,011
Other borrowings	34	**14,361**	80,000
Financial derivative liabilities	34	**19,191**	4,355
		765,720	1,155,682
Net current liabilities		**(611,321)**	(1,043,351)
Total assets less current liabilities		**1,753,717**	1,445,183
Non-current liabilities			
Other borrowings	34	**213,975**	151,580
Net assets		**1,539,742**	1,293,603
Capital and reserves			
Share capital	38	**21,068**	15,040
Reserves	39	**1,518,674**	1,278,563
Total equity		**1,539,742**	1,293,603

On behalf of the Board

YU Pan
Director

SIU Shawn
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital	Share premium	Contributed surplus reserve	Share-based payment reserve	Property revaluation reserve	Merger reserve	Statutory reserves	Foreign exchange reserve	Capital reserve	Retained profits	Sub-total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	15,040	1,216,194	16,116	13,251	34,499	(293,095)	6,471	(369)	7,351	599,622	1,615,080	31,406	1,646,486
Loss for the year	–	–	–	–	–	–	–	–	–	(51,861)	(51,861)	(9,968)	(61,829)
Other comprehensive income	–	–	–	–	–	–	–	(26)	–	–	(26)	–	(26)
Total comprehensive income for the year	–	–	–	–	–	–	–	(26)	–	(51,861)	(51,887)	(9,968)	(61,855)
Contribution from non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	39,000	39,000
Recognition of equity-settled share-based payment expenses	–	–	–	1,519	–	–	–	–	–	–	1,519	–	1,519
At 31 December 2011 and 1 January 2012	**15,040**	**1,216,194**	**16,116**	**14,770**	**34,499**	**(293,095)**	**6,471**	**(395)**	**7,351**	**547,761**	**1,564,712**	**60,438**	**1,625,150**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(79,976)**	**(79,976)**	**(41,954)**	**(121,930)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**24**	**–**	**–**	**24**	**–**	**24**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**24**	**–**	**(79,976)**	**(79,952)**	**(41,954)**	**(121,906)**
Issue of shares upon rights issue *(Note 38)*	**6,028**	**295,347**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**301,375**	**–**	**301,375**
Share issue expenses	**–**	**(4,359)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,359)**	**–**	**(4,359)**
Reallocation of lapsed options from share-based payment reserve to retained profits	**–**	**–**	**–**	**(3,753)**	**–**	**–**	**–**	**–**	**–**	**3,753**	**–**	**–**	**–**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**–**	**2,657**	**–**	**–**	**–**	**–**	**–**	**–**	**2,657**	**–**	**2,657**
At 31 December 2012	**21,068**	**1,507,182**	**16,116**	**13,674**	**34,499**	**(293,095)**	**6,471**	**(371)**	**7,351**	**471,538**	**1,784,433**	**18,484**	**1,802,917**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Net cash (used in) from operating activities	41	**(98,789)**	101,184
Investing activities			
Interest received		**17,046**	7,955
Consideration received for disposal of a subsidiary in prior year		**–**	43,970
Deposit paid for acquisition of leasehold/investment property		**(17,432)**	–
Purchase of property, plant and equipment		**(1,948)**	(5,203)
Proceeds from disposal of property, plant and equipment		**69**	330
Decrease (increase) in restricted and pledged deposits		**303,893**	(23,809)
Net cash from investing activities		**301,628**	23,243
Financing activities			
Proceeds from issue of ordinary shares	38	**301,375**	–
Share issue expenses		**(4,359)**	–
New bank and other borrowings		**282,923**	283,512
Repayment of bank and other borrowings		**(615,636)**	(234,924)
Repayment of loans from non-controlling shareholders of a subsidiary		**(9,275)**	(27,380)
Loan advance to non-controlling shareholder of a subsidiary		**–**	(5,100)
Repayment of loan advance to non-controlling shareholder of a subsidiary		**5,100**	–
Capital contributions from non-controlling shareholder of a subsidiary		**–**	39,000
Net cash (used in) from financing activities		**(39,872)**	55,108
Net increase in cash and cash equivalents		**162,967**	179,535
Effect of foreign exchange rate changes		**25**	(3,671)
Cash and cash equivalents at beginning of year		**200,211**	24,347
Cash and cash equivalents at end of year	31	**363,203**	200,211

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

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

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

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

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

(a) Adoption of amendments to HKFRSs – effective 1 January 2012

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

As explained below, the adoption of these amendments has no material impact on the Group's financial statements.

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 expand the disclosure requirements for transfer transactions of financial assets, in particular where the reporting entity has continuing involvement in financial assets that it has derecognised. The newly required disclosures allow users of financial statements to better understand the risks to which the reporting entity remains exposed. And such information is relevant in assessing the amount, timing and uncertainty of the entity's future cash flows. The adoption of the amendments has no impact on the disclosures for the current and comparative periods presented.

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

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property which is stated at fair value under HKAS 40 "Investment Property" is recovered entirely through sale. The measurement of the deferred tax liability or deferred tax asset reflects the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If this presumption is rebutted, the amount of deferred tax is measured based on the expected manner in which the carrying amount of the investment property would be recovered, using the appropriate tax rates enacted or substantially enacted at the reporting date (see note 4(l)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(a) Adoption of amendments to HKFRSs – effective 1 January 2012 (Continued)

Amendments to HKAS 12 – Deferred Tax – Recovery of Underlying Assets (Continued)

The Group has rebutted the presumption in respect of the Group's investment properties, which are located in the PRC, as they are assessed to be depreciable and are held by subsidiaries with a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time rather than through sale. Deferred tax in respect of the investment properties has been provided on the basis of recovery through use in the prior periods. As a result, the adoption of the amendments has no impact on the Group's reported profit or loss and financial position for any period presented.

(b) New HKFRSs that have been early adopted by the Group

The following new HKFRSs which are effective for annual periods beginning on or after 1 January 2013 have been early adopted by the Group.

HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures

As explained below, the early adoption of these new HKFRSs has no material impact on the Group's financial statements.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively. The Directors have made an assessment based on the control model introduced by HKFRS 10 and conclude that the adoption of HKFRS 10 has no material impact on the Group's financial statements for any period presented.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(b) New HKFRSs that have been early adopted by the Group (Continued)

HKFRS 11 – Joint Arrangements

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

Under HKAS 31 "Interests in Joint Ventures", the Group's interest in a joint venture was accounted for as jointly controlled entity using proportionate consolidation method. The Group's holds 100% equity interest in the jointly controlled entity. Under HKFRS 11, taking into account all relevant facts and circumstances, the Directors consider that the joint arrangement is accounted for as joint operation. The Group shall recognise its interests in the assets, liabilities, income and expenses arising from the joint operation. Under the contractual terms of joint arrangement, the Group has 100% interest in the assets and profit or loss (except for the residential units to be completed under the joint arrangement in which the Group has 72% interest) and bear 100% of the liabilities arising from the joint arrangement. The cost of the Group's 72% interest in the properties is recorded as 100% of construction cost to be incurred under the joint arrangement. As a result, the Directors conclude that the adoption of HKFRS 11 has no material impact on the Group's financial statements for any period presented.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements. The Directors conclude that the adoption of HKFRS 12 has no material impact on the Group's financial statements, except for additional disclosures for subsidiaries and joint operation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 13	Fair Value Measurement[2]
HKAS 19 (2011)	Employee Benefits[2]

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

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

(i) *HKAS 1 Presentation of Financial Statements*

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

(ii) *HKAS 16 Property, Plant and Equipment*

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle (Continued)

(iii) *HKAS 32 Financial Instruments: Presentation*

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

(iv) *HKAS 34 Interim Financial Reporting*

The amendments clarifies that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

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

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

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

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

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

HKFRS 9 – Financial Instruments

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

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

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

HKFRS 13 – Fair Value Measurement

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

HKAS 19 (2011) – Employee Benefits

HKAS 19 (2011) abandons the corridor approach with the result that changes in defined benefit obligations and the fair value of plan assets are recognised in the period in which they occur. The revised standard requires the changes in the Group's net defined benefit liability (or asset) to be separated into three components: service cost (including current and past service cost and settlements) recognised in profit or loss; net interest on the net defined benefit liability recognised in profit or loss; and re-measurements of the defined benefit liability (or asset) recognised in other comprehensive income. The revised standard distinguishes between short-term and long-term employee benefits based on the expected date of settlement. The previous standard used the term "due to be settled". This change may result in more plans being classified as long-term employee benefit plans that will need to be accounted for in a similar way to defined benefit plans. HKAS 19 (2011) provides additional guidance on the definition of termination benefits. Benefits that are conditional on future service being provided including those that increase if additional service is provided are not termination benefits. The revised standard requires that a liability for termination benefits is recognised on the earlier of the date when the entity can no longer withdraw the offer of those benefits and the date the entity recognises any related restructuring costs. This could lead to later recognition of voluntary termination benefits in some cases. The amendments will generally be applied retrospectively with two exceptions.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The Directors are not yet in a position to state whether they will have material financial impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Use of estimates and judgements

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

(d) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is same as the functional currency of the Company and its principal subsidiaries.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

(b) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

(c) Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent of the parties sharing control for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

Joint operation – When the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture – When the Group has rights only to the net assets of the arrangements, it accounts for its interest using the equity method.

(d) Goodwill

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Goodwill (Continued)

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

(e) Property, plant and equipment

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

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

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

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

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

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

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

(f) Investment properties

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Properties under development

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

(h) Properties held for sale

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

(i) Capitalisation of borrowing costs

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

(j) Financial instruments

(i) Financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

(ii) Impairment loss on financial assets

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

– significant financial difficulty of the debtor;

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

– granting concession to a debtor because of debtors' financial difficulty; and

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

(iii) Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

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

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, loans and borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

(iv) Effective interest method

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

(v) Equity instruments

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

(vi) Financial guarantee contracts

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

(viii) Derecognition

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

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

(k) Revenue recognition

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Income taxes

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

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

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

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Foreign currency

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

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

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

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

(n) Employee benefits

(i) Defined contribution pension plan

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

(ii) Termination benefits

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Share-based payments

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Provisions and contingent liabilities

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

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

(r) Leasing

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

The Group as lessor

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

The Group as lessee

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

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

(s) Related parties

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

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

(ii) has significant influence over the Group; or

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Related parties (Continued)

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

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

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

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

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

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

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

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

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Consideration receivable

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

In assessing the recoverability of the balance of the second installment due from HNA Hotel, the management has assessed the financial position of HNA Hotel and its ability to execute the provisions set out in the supplemental sale and purchase agreement dated 3 November 2012 in relation to the transfer of the ownership of the properties at the HNA Tower, committed by HNA Hotel, to the Group for office use by the Group.

Impairment of non-financial assets other than goodwill

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Income taxes and deferred taxes

The Group is subject to taxation in the PRC and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

Land appreciation taxes

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

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

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

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

Critical judgments in applying accounting policies are as follows:

Consideration from disposal of Tianhe Project

During the year and at the end of the reporting period, management makes judgement on whether the revenue recognition criteria set out in paragraph 14 of HKAS 18 "Revenue" in respect of the sale of the underlying assets and liabilities of the Tianhe Project have been fully satisfied, making reference to the terms of the agreement governing the sale transaction and the current circumstances of the due performance of certain obligations of the Group. Without fully satisfying the revenue recognition criteria, the related revenue and costs of the project are deferred and carried in the consolidated statement of financial position. More details have been set out in note 36.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENT REPORTING

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

Property development	–	Property development and sale of properties
Property investment	–	Property leasing

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses directly incurred by those segments. In addition to the segment performance in terms of segment results, management also provides other segment information concerning depreciation, fair value changes in investment properties and write-down of properties held for sale.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENT REPORTING (Continued)

	Property development RMB'000	Property investment RMB'000	Total RMB'000
Year ended 31 December 2012			
Reportable segment revenue			
– external, and consolidated revenue	**35,033**	**18,770**	**53,803**
Segment results	**(51,538)**	**10,084**	**(41,454)**
Reconciliation:			
Unallocated corporate net expenses			**(23,717)**
			(65,171)
Fair value changes in investment properties	**–**	**18,000**	**18,000**
Write-down of properties held for sale	**(77,375)**	**–**	**(77,375)**
Fair value changes in financial derivative liabilities			**2,352**
Finance costs			**(10,092)**
Finance income			**18,513**
Consolidated loss before income tax			**(113,773)**
Other segment information:			
Depreciation	**(448)**	**(1,014)**	**(1,462)**
Bad debts recovered	**–**	**117**	**117**
Additions to properties under development	**367,021**	**–**	**367,021**
Capital expenditure	**1,182**	**–**	**1,182**
As at 31 December 2012			
Assets and liabilities			
Assets			
Reportable segment assets	**3,550,512**	**535,860**	**4,086,372**
Reconciliation:			
Restricted and pledged deposits			**252,320**
Cash and cash equivalents			**363,203**
Unallocated corporate assets			**1,925**
Consolidated total assets			**4,703,820**
Liabilities			
Reportable segment liabilities	**2,216,580**	**9,856**	**2,226,436**
Reconciliation:			
Income tax payable			**62,098**
Deferred tax liabilities			**175,048**
Financial derivative liabilities			**19,191**
Unallocated bank and other borrowings			**411,746**
Unallocated corporate liabilities			**6,384**
Consolidated total liabilities			**2,900,903**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENT REPORTING (Continued)

	Property development RMB'000	Property investment RMB'000	Total RMB'000
Year ended 31 December 2011			
Reportable segment revenue			
– external, and consolidated revenue	15,588	17,363	32,951
Segment results	(96,010)	5,417	(90,593)
Reconciliation:			
Unallocated corporate net expenses			(172)
			(90,765)
Fair value changes in investment properties	–	15,000	15,000
Fair value changes in financial derivative liabilities			(1,510)
Finance costs			(8,746)
Finance income			16,592
Consolidated loss before income tax			(69,429)
Other segment information:			
Depreciation	(219)	(467)	(686)
Impairment loss on trade and other receivables	–	(215)	(215)
Bad debts recovered	–	54	54
Additions to properties under development	339,954	–	339,954
Capital expenditure	498	–	498
As at 31 December 2011			
Assets and liabilities			
Assets			
Reportable segment assets	3,158,481	501,494	3,659,975
Reconciliation:			
Restricted and pledged deposits			556,213
Cash and cash equivalents			200,211
Unallocated corporate assets			862
Consolidated total assets			4,417,261
Liabilities			
Reportable segment liabilities	1,731,561	12,160	1,743,721
Reconciliation:			
Income tax payable			83,087
Deferred tax liabilities			170,548
Financial derivative liabilities			4,355
Unallocated bank and other borrowings			785,560
Unallocated corporate liabilities			4,840
Consolidated total liabilities			2,792,111

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENT REPORTING (Continued)

Information about major customers

One of the customers of the Group's property investment segment contributed revenue amounted to RMB7,479,000 (2011: 7,479,000) for the year ended 31 December 2012, which accounts for more than 10% of the Group's revenue.

7. REVENUE

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

	2012	2011
	RMB'000	*RMB'000*
Sale of properties	**32,394**	13,702
Rental income	**21,409**	19,249
	53,803	32,951

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. FINANCE COSTS AND INCOME

	2012 *RMB'000*	2011 *RMB'000*
Finance costs:		
Interest on bank and other borrowings		
– wholly repayable within five years	**54,853**	40,180
– wholly repayable after five years	**4,397**	4,514
Imputed interest on loan from non-controlling shareholders of a subsidiary	**4,455**	8,911
	63,705	53,605
Less: Amount capitalised as properties under development		
Interest on bank and other borrowings	**(56,679)**	(37,846)
Imputed interest on loan from non-controlling shareholders of a subsidiary	**(4,455)**	(8,911)
	(61,134)	(46,757)
	2,571	6,848
Other borrowing costs	**15,511**	1,898
Less: Amount capitalised as properties under development	**(7,990)**	–
	7,521	1,898
Finance costs charged to profit or loss	**10,092**	8,746
Finance income:		
Bank interest income	**13,588**	11,941
Other interest income	**4,925**	4,651
	18,513	16,592

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. LOSS BEFORE INCOME TAX

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of properties sold		**24,857**	12,346
Write-down of properties held for sale		**77,375**	–
Cost of inventories recognised in profit or loss		**102,232**	12,346
Staff costs, including directors' emoluments	*10*	**42,788**	34,106
Auditor's remuneration			
– current year		**826**	854
– non-audit services		**335**	227
Depreciation of property, plant and equipment	*17*	**1,627**	751
Less: Amount capitalised as properties under development	*25*	**(38)**	(55)
Total depreciation charged to profit or loss		**1,589**	696
Loss (gain) on disposal of property, plant and equipment		**63**	(10)
Minimum lease payments under operating lease in respect of:			
– rented office premises		**1,298**	4,510
– rented other premises		**621**	304
Exchange loss (gain), net		**2,303**	(16,682)
Impairment loss on trade and other receivables		**–**	215
Bad debts recovered		**(117)**	(54)
Direct expenses incurred for rental income		**4,303**	4,604

10. STAFF COSTS

	2012 RMB'000	2011 RMB'000
Staff costs (including directors' emoluments) comprise:		
Basic salaries and other benefits	**42,203**	33,698
Bonuses	**9,645**	3,979
Equity-settled share-based payment expenses	**2,657**	1,519
Contributions to defined contribution pension plans	**2,153**	1,787
Compensation for loss of office	**–**	3,315
	56,658	44,298
Less: Amount capitalised as properties under development	**(13,870)**	(10,192)
Staff costs charged to profit or loss	**42,788**	34,106

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. DIRECTORS' EMOLUMENTS

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

	Fees	Salaries and other benefits	Bonuses	Compensation for loss of office	Equity-settled share-based payment expenses	Contributions to defined contribution pension plan	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note (a))	*(note (b))*				
2012							
Executive directors							
YU Pan	–	1,763	459	–	–	11	2,233
SIU Shawn	–	1,581	409	–	511	11	2,512
LAU Yat Tung, Derrick *(office terminated on 9 January 2012)*	–	115	–	–	–	1	116
WONG Lok	–	215	–	–	–	10	225
Independent non-executive directors							
CHOY Shu Kwan	163	–	–	–	–	–	163
CHENG Wing Keung, Raymond	163	–	–	–	–	–	163
CHUNG Lai Fong	163	–	–	–	–	–	163
	489	3,674	868	–	511	33	5,575
2011							
Executive directors							
YU Pan	–	1,710	335	–	–	10	2,055
SIU Shawn *(appointed on 1 September 2011)*	–	644	124	–	292	4	1,064
LAU Yat Tung, Derrick	–	701	–	3,315	–	10	4,026
WONG Lok	–	218	–	–	–	10	228
Independent non-executive directors							
CHOY Shu Kwan	166	–	–	–	–	–	166
CHENG Wing Keung, Raymond	166	–	–	–	–	–	166
CHUNG Lai Fong	166	–	–	–	–	–	166
	498	3,273	459	3,315	292	34	7,871

Notes:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

Of the five individuals with the highest emoluments in the Group during the year, two (2011: two) are Directors whose emoluments are included in note 11 above. The emoluments of the remaining three (2011: three) individuals are as follows:

	2012	2011
	RMB'000	*RMB'000*
Basic salaries and other benefits	**3,455**	2,822
Bonuses	**1,080**	861
Equity-settled share-based payment expenses	**1,318**	753
Contributions to defined contribution pension plans	**102**	90
	5,955	4,526

Their emoluments are within the following bands:

	Number of individuals	
	2012	2011
RMB1,220,001 to RMB1,627,000 (equivalent to Hong Kong dollars ("**HK$**") 1,500,001 to HK$2,000,000)	**–**	2
RMB1,627,001 to RMB2,034,000 (equivalent to HK$2,000,001 to HK$2,500,000)	**2**	1
RMB2,034,001 to RMB2,441,000 (equivalent to HK$2,500,001 to HK$3,000,000)	**1**	–

The emoluments paid or payable to members of senior management (excluding the directors as disclosed in note 11) are within the following bands:

	Number of senior management	
	2012	2011
RMB814,001 to RMB1,220,000 (equivalent to HK$1,000,001 to HK$1,500,000)	–	2
RMB1,220,001 to RMB1,627,000 (equivalent to HK$1,500,001 to HK$2,000,000)	–	2
RMB1,627,001 to RMB2,034,000 (equivalent to HK$2,000,001 to HK$2,500,000)	4	1
RMB2,034,001 to RMB2,441,000 (equivalent to HK$2,500,001 to HK$3,000,000)	1	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. INCOME TAX (EXPENSE) CREDIT

	2012	2011
	RMB'000	*RMB'000*
Current tax		
Hong Kong profits tax		
– over-provision in respect of prior years	**553**	–
PRC corporate tax		
– current year	**(3,884)**	(4,953)
– under-provision in respect of prior years	**–**	(1,580)
PRC LAT		
– current year	**(326)**	(137)
– over-provision in respect of prior years	**–**	20,995
– under-provision in respect of prior years	**–**	(2,975)
	(3,657)	11,350
Deferred tax *(Note 37)*		
– current year	**(4,500)**	(3,750)
Total income tax (expense) credit	**(8,157)**	7,600

No provision for Hong Kong profits tax has been made for the year ended 31 December 2012 (2011: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2011: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2011: 25%) of the estimated assessable profits.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. INCOME TAX (EXPENSE) CREDIT (Continued)

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

	2012 *RMB'000*	2011 *RMB'000*
Loss before income tax	**(113,773)**	(69,429)
Tax calculated at the applicable income tax rate of 25% (2011: 25%)	**28,443**	17,357
Effect of different tax rates of entities operating in other jurisdictions	**(6,616)**	(4,462)
Tax effect of expenses not deductible for tax purposes	**(3,949)**	(14,656)
Tax effect of revenue not subject to tax	**1,264**	4,073
Tax effect of tax losses not recognised during the year	**(25,062)**	(10,921)
Tax effect of LAT	**(326)**	(137)
Over-provision in respect of prior years	**553**	20,995
Under-provision in respect of prior years	**–**	(4,555)
Tax effect of other temporary differences not recognised	**(4,304)**	(3,909)
Others	**1,840**	3,815
Income tax (expense) credit	**(8,157)**	7,600

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB58,859,000 (2011: RMB91,520,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. LOSS PER SHARE

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

	2012	2011
	RMB'000	*RMB'000*
Loss attributable to ordinary shareholders of the Company for the purposes of basic loss per share	**(79,976)**	(51,861)
Effect of dilutive potential ordinary shares:		
Fair value changes in financial derivative liabilities	**(3,165)**	–
Loss for the purposes of diluted loss per share	**(83,141)**	(51,861)

	Number of shares	
	'000	*'000*
		(Restated)
Weighted average number of ordinary shares for the purposes of basic loss per share	**1,952,295**	1,540,759
Effect of dilutive potential ordinary shares from warrants	**152**	–
Weighted average number of ordinary shares for the purposes of diluted loss per share	**1,952,447**	1,540,759

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

The weighted average number of ordinary shares for the purpose of basic loss per share for 2011 has been restated for the impact arising from the rights issue in June 2012.

16. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2012 (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. PROPERTY, PLANT AND EQUIPMENT

The Group	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2011	2,828	2,540	5,368
Additions	999	4,204	5,203
Written off/disposals	(181)	(569)	(750)
Exchange differences	(13)	(58)	(71)
At 31 December 2011 and at 1 January 2012	**3,633**	**6,117**	**9,750**
Additions	**1,333**	**615**	**1,948**
Disposals	**(701)**	**–**	**(701)**
At 31 December 2012	**4,265**	**6,732**	**10,997**
Accumulated depreciation			
At 1 January 2011	1,222	1,747	2,969
Depreciation for the year	532	219	751
Written off/disposals	(181)	(249)	(430)
Exchange differences	(14)	(57)	(71)
At 31 December 2011 and at 1 January 2012	**1,559**	**1,660**	**3,219**
Depreciation for the year	**699**	**928**	**1,627**
Disposals	**(569)**	**–**	**(569)**
At 31 December 2012	**1,689**	**2,588**	**4,277**
Net book value			
At 31 December 2012	**2,576**	**4,144**	**6,720**
At 31 December 2011	2,074	4,457	6,531

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. INVESTMENT PROPERTIES

The Group	2012 RMB'000	2011 RMB'000
At beginning of year	**495,000**	480,000
Changes in fair value	**18,000**	15,000
At end of year	**513,000**	495,000

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

19. PROPERTIES UNDER TIANHE PROJECT

Details of the project are set out in note 36. The following table reconciles the movement of the carrying amount of costs of the Tianhe Project during the year:

The Group	2012 RMB'000	2011 RMB'000
At beginning of year	**765,059**	690,171
Additions of land and relocation costs	**5**	74,888
At end of year	**765,064**	765,059

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

20. GOODWILL

The Group	2012 RMB'000	2011 RMB'000
Cost		
At beginning of year and at end of year	**68,351**	68,351
Accumulated impairment loss		
At beginning of year and at end of year	**54,797**	54,797
Net book value		
At end of year	**13,554**	13,554

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

Project	Attributable CGU	2012 RMB'000	2011 RMB'000
Zhoutouzui Project	Property development *(Note)*	**13,554**	13,554

Note: Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition which was completed on 4 June 2007. The carrying amount of property development costs in relation to the Zhoutouzui Project is included in properties under development (as disclosed in note 25).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

20. GOODWILL (Continued)

Impairment test for goodwill

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

Key assumptions are as follows:

CGU	Discount rate	Operating margin
As at 31 December 2012		
Property development	**8.00%**	**60.70%**
As at 31 December 2011		
Property development	8.00%	49.60%

Discount rate is based on the Group's management's assessment of specific risks related to the CGU. Operating margin is based on the management's perception of the market outlook.

No impairment loss is provided for the year ended 31 December 2012 (2011: Nil). The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates sufficient cashflow projection that justifies the carrying value of the goodwill. Hence, the management did not consider impairment of goodwill necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. INTERESTS IN SUBSIDIARIES

The Company	Notes	2012 RMB'000	2011 RMB'000
Interests in subsidiaries – non-current portion			
Unlisted investments, at cost	(a)	2,365,038	2,488,534
Amounts due from subsidiaries – current portion			
Amounts due from subsidiaries	(b)	157,929	133,335
Less: Provision for impairment loss		(17,987)	(23,312)
		139,942	110,023
		2,504,980	2,598,557
Amounts due to subsidiaries	(b)	(726,511)	(1,068,011)

Notes:

(a) Details of the Company's principal subsidiaries as at 31 December 2012 are as follows:

Name of subsidiaries	Place of incorporation/ establishment	Particulars of issued ordinary shares/paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
Fine Luck Group Limited	BVI	United States dollar ("US$")1	100%	–	Investment holding
Fortunate Start Investments Limited	BVI	US$100	–	100%	Investment holding
Graceful China Limited	Hong Kong	HK$1	100%	–	Group treasury and investment holding
廣州市創譽房地產開發有限公司 (Guangzhou Chuangyu Real Estate Development Company Limited) ("**Chuangyu**")	PRC	US$6,000,000	–	100%	Property investment in the PRC
廣州譽浚咨詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited) ("**GZ Yu Jun**")	PRC	HK$5,000,000	–	100%	Investment holding and provision of property development project management services in the PRC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(a) Details of the Company's principal subsidiaries as at 31 December 2012 are as follows: (Continued)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(c) Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information of each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	Guizhou Yu Jun As at 31 December		Yongzhou Tianyu As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current				
Assets	**1,251,483**	1,044,438	**219,699**	178,642
Liabilities	**(1,057,078)**	(774,536)	**(59,656)**	(769)
	194,405	269,902	**160,043**	177,873
Non-current				
Assets	**313**	437	**801**	670
Liabilities	**(229,497)**	(219,973)	**(146,546)**	(152,201)
	(229,184)	(219,536)	**(145,745)**	(151,531)
Net (liabilities) assets	**(34,779)**	50,366	**14,298**	26,342
Accumulated non-controlling interests	**(15,651)**	22,659	**4,289**	7,903

Summarised statement of comprehensive income

	For the year ended 31 December		For the year ended 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**35,033**	15,588	**–**	–
Loss before income tax	**(84,105)**	(17,709)	**(12,045)**	(3,658)
Income tax expense	**(1,040)**	(1,716)	**–**	–
Loss after tax and total comprehensive income	**(85,145)**	(19,425)	**(12,045)**	(3,658)
Loss allocated to non-controlling interests	**(38,310)**	(8,747)	**(3,614)**	(1,097)
Dividends paid to non-controlling interests	**–**	–	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(c) Summarised financial information of subsidiaries with material non-controlling interests (Continued)

Summarised statement of cash flows

	Guizhou Yu Jun For the year ended 31 December 2012 *RMB'000*	Yongzhou Tianyu For the year ended 31 December 2012 *RMB'000*
Cash flows from operating activities		
Cash generated from (used in) operations	127,719	(21,300)
Interest paid	(860)	–
Income tax paid	(9,872)	(849)
Net cash from (used in) operating activities	116,987	(22,149)
Cash flows from investing activities		
Interest received	408	22
Purchase of property, plant and equipment	(60)	(226)
Net cash from (used in) investing activities	348	(204)
Cash flows from financing activities		
New bank and other borrowings	10,000	–
Repayment of bank and other borrowings	(55,000)	–
Repayment of advance from immediate holding company/fellow subsidiaries	(477)	(5,655)
Repayment of loans from non-controlling shareholders of a subsidiary	(9,275)	–
Net cash used in financing activities	(54,752)	(5,655)
Net increase (decrease) in cash and cash equivalents	62,583	(28,008)
Cash and cash equivalents at beginning of year	118,105	32,633
Cash and cash equivalents at end of year	180,688	4,625

The information above is the amount before inter-company eliminations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. JOINT ARRANGEMENT

The Group

The Company holds indirectly 100% interest in a Company, named 廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Limited) ("**Yucheng**"), which is accounted for as joint operation. The Group accounts for its share of assets, liabilities and profit or loss in relation to the joint operation in accordance with the policy set out in note 4(c). Yucheng is a sino-foreign co-operative company established in the PRC for a renewal term of 15 years commencing on 5 March 2003. Details of Yucheng are as follows:

Place and date of establishment	Registered capital	Paid-up capital	Principal activity
PRC, 31 March 2003	US$50,000,000	US$50,000,000 (2011: US$50,000,000)	Property development in the PRC

Under the terms of the agreement entered into by the parties, (i) GZ Zhoutouzui is obligated for 100% of the capital of and investment in Yucheng; (ii) GZ Zhoutouzui paid approximately RMB10,000,000 to one of the joint arrangement parties, 廣州越秀企業（集團）公司 (Guangzhou Yuexiu Enterprise (Group) Company Limited) ("**Yuexiu**"), as cash compensation in 2005, which has been included in properties under development, and Yuexiu is then no longer entitled to any profit or loss generated by Yucheng; (iii) another party, 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) ("**GZ Port**"), will be entitled to 28% of the total gross floor area of the project upon completion of the proposed development and after which, GZ Port will not be entitled to any profit or loss generated by Yucheng; and (iv) GZ Zhoutouzui will be entitled to 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated or incurred by Yucheng. GZ Zhoutouzui is also entitled to all assets other than the 28% properties to be allocated to GZ Port, and obliged to bear all the liabilities of Yucheng under the arrangement.

As Yuexiu no longer has interest in the Zhoutouzui Project, steps have been taken to effect the withdrawal of Yuexiu from the joint arrangement. As at the date of this report, documents have been submitted to the relevant government authorities for the approval and registration of the withdrawal which is expected to be completed in 2013. The Directors expect that the withdrawal of of Yuexiu will not have material impact on the Group's interest in the joint arrangement and on the Group's financial statements.

23. DEPOSIT PAID FOR ACQUISITION OF LEASEHOLD/INVESTMENT PROPERTY

THE GROUP

On 19 December 2012, Waymax Investments Limited ("**Waymax**"), an indirect wholly owned subsidiary of the Company, entered into the agreement with an independent third party and pursuant to which Waymax conditionally agreed to purchase the leasehold/investment property in Hong Kong at the cash consideration of HK$215,000,000 (RMB174,322,000). A refundable deposit of HK$21,500,000 (approximately RMB17,432,000) was paid by the Group upon signing of the agreement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

24. CONSIDERATION RECEIVABLE

The Group	Gross consideration	(Received)/ Paid	2012 RMB'000	2011 RMB'000
Gross sale consideration for the equity interest plus net assets of Huan Cheng (net of relocation cost of fire-station borne by the Group)	1,128,273	(858,659)	**269,614**	264,738
Less: Development costs and finance costs borne by the Group	(55,000)	13,635	**(41,365)**	(49,596)
	1,073,273	(845,024)	**228,249**	215,142
Less: Impairment loss recognised in overdue consideration receivable	(12,929)	–	**(12,929)**	(12,929)
Less: Amortisation of future value in final payment	(4,557)	–	**(4,557)**	(9,114)
Amortised cost	1,055,787	(845,024)	**210,763**	193,099
Amount due within one year included in current assets	(116,685)	–	**(116,685)**	(111,809)
Amount due after one year	939,102	(845,024)	**94,078**	81,290

Note:

The receivable relates to the outstanding instalments receivable from the purchaser, HNA Hotel, for the disposal of Huan Cheng that is unsecured and interest-free. A sum of approximately RMB13,107,000 had been paid by the Group as relocation costs of the fire station, design and development costs during the year. An outstanding amount of approximately RMB130,138,000 was due in April 2011 and remained unsettled as at the end of the year. The management has been in discussions with HNA Hotel about the settlement of the outstanding amount throughout the two years. Based on a supplemental sale and purchase agreement entered into on 3 November 2012 (the "**Supplemental Agreement**") with, amongst the others, HNA Hotel, HNA Hotel agrees to transfer the property interests of the 32nd and 33rd floors of HNA Tower indirectly owned by HNA Hotel to the Group on or before 30 April 2013 as full and final settlement of the outstanding consideration currently due by HNA Hotel of approximately RMB129,614,000 (net of relocation costs) (2011: RMB124,738,000). The properties are currently leased to the Group as head office in Guangzhou but the rental charge for the year was waived by HNA Hotel as part of the conditions under the Supplemental Agreement. The Directors have also reviewed the latest financial information of HNA Hotel to assess its financial ability to execute the provisions set out in the Supplemental Agreement and cast no doubt on the recoverability of the final instalment when due.

The Directors believed that HNA Hotel is taking appropriate steps to complete the transfer of ownership. A provision for impairment loss of RMB12,929,000 based on the discounted cash flows estimated on market rental to be received from the leasing of the properties to be transferred was made in the accounts in the comparative year for 2011.

The final instalment of approximately RMB94,078,000 (2011: RMB81,290,000) is receivable when the construction of the properties is completed, which is expected to occur in more than twelve months from the end of reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

25. PROPERTIES UNDER DEVELOPMENT

Properties under development in the PRC are as follows:

The Group	**2012** *RMB'000*	2011 *RMB'000*
Land use rights *(Note)*	**266,624**	284,457
Premium paid for the acquisition of the interest of the land, demolition and settlement costs	**899,433**	1,085,594
Construction costs	**331,809**	359,617
Others	**193,454**	187,621
	1,691,320	1,917,289

Note:

Land use rights comprise cost of acquiring rights to using certain pieces of land which are all located in the PRC for property development over fixed periods of time as defined within the range between 40 and 70 years.

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

The Group	**2012** *RMB'000*	2011 *RMB'000*
At beginning of year	**1,917,289**	1,537,126
Additions		
– Capitalisation of depreciation of property, plant and equipment	**38**	55
– Capitalisation of finance costs	**69,124**	46,757
– Land and other development costs	**367,021**	339,954
	436,183	386,766
Completed properties transferred to properties held for sale	**(662,152)**	(6,603)
At end of year	**1,691,320**	1,917,289

26. PROPERTIES HELD FOR SALE

The Group	**2012** *RMB'000*	2011 *RMB'000*
Completed properties held for sale	**666,640**	106,717

All completed properties held for sale as at 31 December 2012 were located in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

27. ANALYSIS OF PROPERTIES

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

The Group	**2012** *RMB'000*	2011 *RMB'000*
Medium-term land lease in the PRC		
– Investment properties	**513,000**	495,000
Long-term land lease in the PRC		
– Properties held for sale	**666,640**	106,717
	1,179,640	601,717

(b) The investment properties were revalued on an open market value basis by an independent firm of professional valuers, DTZ Debenham Tie Leung Limited, Chartered Surveyors, as at 31 December 2012. The valuation is arrived at with reference to market evidence of transaction prices for similar properties in the similar locations and conditions.

(c) The Group's investment properties and properties held for sale with carrying amounts as disclosed in note 46 are pledged to secure bank borrowings of the Group, as disclosed in note 34(a), at the end of the reporting period.

(d) Gross rental income from investment properties and properties held for sale amounted to RMB18,770,000 (2011: RMB17,363,000) and RMB2,639,000 (2011: RMB1,886,000) respectively during the year ended 31 December 2012.

28. LOAN TO NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The Group

As at 31 December 2011, the balance represented cash advanced to a non-controlling shareholder of a subsidiary. The loan was unsecured, bearing interest at the rate of 15% per annum and fully recovered in 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. TRADE AND OTHER RECEIVABLES

The Group	Notes	2012 *RMB'000*	2011 *RMB'000*
Current or less than 1 month		**246**	171
1 to 3 months		**104**	159
More than 3 months but less than 12 months		**916**	374
More than 1 year		**137**	–
Trade receivables, net of impairment	*(a), (b)*	**1,403**	704
Refundable earnest money in development project		**10,000**	10,000
Tender deposit in development project		**6,000**	6,000
Prepaid construction costs		**124,589**	98,202
Business taxes and surcharges paid for pre-sold properties		**45,689**	28,386
Interest receivable on bank deposits		**2,534**	5,993
Deposits, prepayments and other receivables	*(b)*	**13,589**	9,203
		203,804	158,488

Notes:

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

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

The Group	2012 *RMB'000*	2011 *RMB'000*
1 to 3 months past due	**104**	159
More than 3 months but less than 12 months past due	**916**	374
More than 1 year past due	**137**	–
	1,157	533

The Group's trade receivables which are neither past due nor impaired relate to a number of tenants of the Group's properties for whom there is no recent history of default.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) (Continued)

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

The Group	**2012** **RMB'000**	2011 *RMB'000*
At beginning of year	**595**	434
Impairment loss recognised	**–**	215
Bad debts recovered	**(117)**	(54)
At end of year	**478**	595

30. RESTRICTED AND PLEDGED DEPOSITS

The Group	*Notes*	**2012** ***RMB'000***	2011 *RMB'000*
To secure for:			
– letter of credit issued by a bank which guarantee repayment of money market loan	*(a)*	**126,000**	487,585
– the payment of construction cost of development projects	*(b)*	**41,320**	68,628
– temporary construction facility	*(c)*	**85,000**	–
		252,320	556,213

Notes:

(a) As at 31 December 2012, to secure a back-to-back letter of credit issued by a local bank in the PRC to a Hong Kong-based bank and guarantee repayment of the latter's grant of a money market loan facility in a total of US$18,600,000 (approximately RMB116,910,000) (2011: US$67,700,000 (approximately RMB425,480,000)) to the Group (as disclosed in note 34(b)), bank deposits with an aggregate balance of RMB126,000,000 (2011: RMB487,585,000) were placed in the local bank in the PRC.

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

(c) A temporary lien over a bank deposit of RMB85 million for a proposed banking facility of RMB150 million to finance the construction of phase three of Guiyang Project.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

31. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Short-term bank deposits	**300,864**	487,585	**1,217**	–
Cash at bank and in hand	**314,659**	268,839	**12,840**	1,986
	615,523	756,424	**14,057**	1,986
Less: Restricted and pledged deposits *(Note 30)*	**(252,320)**	(556,213)	**–**	–
	363,203	200,211	**14,057**	1,986

32. TRADE AND OTHER PAYABLES

	2012	2011
The Group	***RMB'000***	*RMB'000*
Current or less than 1 month	**7,574**	385
1 to 3 months	**1,069**	2,502
More than 3 months but less than 12 months	**462**	709
More than 12 months	**3,108**	3,063
Total trade payables	**12,213**	6,659
Construction costs payable	**162,936**	71,408
Receipts in advance, rental and other deposits from buyers, customers and/or tenants	**23,609**	12,449
Interest payable on bank and other borrowings	**675**	2,538
Other accrued expenses and other payables	**45,501**	32,701
	244,934	125,755

33. FINANCIAL GUARANTEE CONTRACT

The Company

During the years ended 31 December 2012 and 2011, the Company provided a corporate guarantee to secure for the repayment of a subsidiary's borrowings as disclosed in note 34(b). However, the Directors consider that the value of the guarantee is minimal, and therefore no financial guarantee contract is recognised as at 31 December 2012 and 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. BANK AND OTHER BORROWINGS AND FINANCIAL DERIVATIVE LIABILITIES

		The Group		The Company	
		2012	2011	**2012**	2011
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Bank and other borrowings					
Interest-bearing, secured					
– bank borrowings					
(i) term loan and construction loan	*(a)*	**107,000**	128,500	**–**	–
(ii) money market loans	*(b)*	**116,910**	425,480	**–**	–
– other borrowings					
(i) Bonds	*(c)*	**–**	151,580	**–**	151,580
(ii) Secured Loan	*(d)*	**213,975**	–	**213,975**	–
Interest-bearing, unsecured					
– other borrowings	*(e)*	**14,361**	80,000	**14,361**	80,000
		452,246	785,560	**228,336**	231,580
Financial derivative liabilities					
– warrants of HK$10,000,000	*(c)*	**1,205**	4,355	**1,205**	4,355
– warrants of HK$29,800,000	*(d)*	**6,130**	–	**6,130**	–
– guaranteed return of warrants	*(d)*	**11,856**	–	**11,856**	–
		19,191	4,355	**19,191**	4,355

Notes:

(a) As at 31 December 2012, the bank borrowings are secured by temporary bank deposits and mortgages of ownership titles of: (i) properties under development; (ii) properties held for sale and (iii) investment properties with an aggregate carrying amount of approximately RMB1,474,257,000 (2011: RMB917,416,000). The bank loans carry interest at variable market rates ranging from 6.12% to 7.38% per annum (2011: 6.12% to 6.65% per annum) as at 31 December 2012. Out of the total amount of RMB107,000,000, a balance of RMB30,500,000 is also secured by the personal guarantee provided by Mr YU Pan and his spouse (2011: Nil). An aggregate amount of RMB40,500,000 (2011: RMB55,000,000) of the borrowings is repayable in 2015, and the remaining balance of RMB66,500,000 (2011: RMB73,500,000) is repayable by quarterly instalment until 2019.

As at 31 December 2012, a PRC bank has granted a construction loan facility of RMB125,000,000 for the development in Yongzhou, which is secured by mortgage of ownership titles of properties under development with a carrying amount of RMB218,562,000. The first drawdown took place in January 2013.

(b) A sum of RMB126,000,000 (2011: RMB487,585,000) was deposited with the bank in the PRC which was used to secure money market loan of US$18,600,000 (approximately RMB116,910,000) (2011: US$67,700,000 (approximately RMB425,480,000)) extended by a bank in Hong Kong. In addition to the pledge of deposits, the Company provides a corporate guarantee of US$18,600,000 (approximately RMB116,910,000) (2011: US$41,600,000 (approximately RMB261,447,000)) to secure for the repayment of the money market loan as at 31 December 2012. The money market loan carries variable interests at the rate of 6 months US$ LIBOR of 0.53% plus a spread rate of 2.80% per annum (2011: 4/12 months US$ LIBOR of 0.42%/1.04% plus a spread rate of 4.10%/3.70% per annum), and is repayable in May 2013.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Notes: (Continued)

(c) The 20% secured and guaranteed bonds due 2013 in the principal amount of HK$200,000,000 (RMB165,740,000) (the "**Bonds**") with warrants were issued on 20 September 2011. The Bonds were amortised under the effective interest method by applying the effective interest rate of 23.30% per annum. The Bonds were early repaid in full amount in June 2012.

The warrants confer rights to the subscriber of the Bonds to subscribe in aggregate up to a principal amount of HK$10,000,000 (RMB8,108,000) for shares of the Company, exercisable in whole or in part at any time during the subscription period from 20 September 2012 to 19 September 2013 at a subscription price of HK$0.6527 per share (initial subscription price: HK$0.7187 per share) as adjusted as a result of the rights issue of the Company during the year. The warrants are not listed on the Stock Exchange and are accounted for as financial derivative liabilities at fair value through profit or loss.

The movements of the Bonds are as follows:

	Nominal value *HK$'000*	Liability component *RMB'000*
At 1 January 2011	–	–
Issue of the Bonds	200,000	162,798
Interest paid in advance	–	(16,574)
Issue costs	–	(829)
	200,000	145,395
Accrued interest expense	–	9,589
Exchange differences	–	(3,404)
At 31 December 2011 and 1 January 2012	**200,000**	**151,580**
Accrued interest expense	**–**	**19,195**
Interest paid	**–**	**(8,666)**
Early full settlement	**(200,000)**	**(163,040)**
Exchange differences	**–**	**931**
At 31 December 2012	**–**	**–**

Mr. YU Pan, controlling shareholder of the Company unconditionally and irrevocably guarantees and undertakes the due performance of the Company under the Bonds. In addition to the personal guarantee, Mr. YU Pan, through his indirect beneficial interest in Grand Cosmos, has charged all his rights, title and interest from time to time in and to the security shares, comprising 963,776,271 ordinary shares of the Company, by way of first fixed charge in favour of the holder of the Bonds. The pledge of shares of the Company and charges over the assets of Grand Cosmos in favour of the holders of the Bonds have been released upon early repayment of the Bonds in 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Notes: (Continued)

(d) The Company (i) entered into with the lender an investment agreement pursuant to which the Company has been granted a secured loan due 2014 in the principal amount of HK$298,000,000 (RMB241,827,000) (the "**Secured Loan**") on 22 November 2012 and (ii) executed a warrant instrument, with guaranteed return, conferring rights to the lender to subscribe in aggregate up to a principal amount of HK$29,800,000 (approximately RMB24,162,000) for shares of the Company, exercisable in whole or in part at any time during the subscription period from 22 November 2012 to 21 November 2014 at an initial subscription price of HK$0.7217 per share of the Company (subject to adjustment). The Secured Loan was amortised under the effective interest method by applying the effective interest rate of 18.9% per annum. The warrants are not listed on the Stock Exchange and are accounted for as financial derivative liabilities at fair value through profit or loss.

The Secured Loan carries interest at the rate of 7% per annum for first anniversary year and 13% per annum for second anniversary year which shall be paid quarterly in arrears. The Secured Loan is fully repayable at 21 November 2014.

If the lender does not exercise the warrants in its entirety by the end of the exercise period, the unexercised portion of the warrants will be automatically cancelled on the expiry of the exercise period. Within 14 days after the expiry of the exercise period, the Company shall pay the warrant holder a sum equivalent to the principal amount of the warrants of HK$29,800,000 (representing 5% per annum of the principal) minus the total gain realised from the exercise of the warrants by the warrant holder (the "**guaranteed return**"), with the total gain subject to the maximum amount of HK$29,800,000 for this calculation purposes. The guaranteed return is accounted for as financial derivative liabilities at fair value through profit or loss.

Pursuant to a share charge dated 16 November 2012, Fortunate Start Investments Limited, a wholly-owned subsidiary of the Company, has charged all its rights, title and interest in GZ Zhoutouzui by way of first fixed charges in favour of the lender of the Secured Loan.

The movements of the Secured Loan are as follows:

	Nominal value *HK$'000*	Liability component *RMB'000*
Issue of the Term Loan	298,000	210,130
Accrued interest expense	–	4,026
Exchange differences	–	(181)
At 31 December 2012	298,000	213,975

(e) As at 31 December 2012, the balance represents unsecured loans advanced from a third party. The borrowings carried interest at the fixed rate of 20% per annum and were fully repaid in February 2013.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
On demand or within one year	**138,271**	567,480	**14,361**	80,000
More than one year, but not exceeding two years	**233,075**	158,580	**213,975**	151,580
More than two years, but not exceeding five years	**64,100**	31,500	**–**	–
After five years	**16,800**	28,000	**–**	–
	452,246	785,560	**228,336**	231,580
Amounts due within one year included in current liabilities	**(138,271)**	(567,480)	**(14,361)**	(80,000)
Amounts due after one year	**313,975**	218,080	**213,975**	151,580

35. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY

The Group

The balances are unsecured, interest-free and have no fixed terms of repayment but are expected to be repaid within one year.

36. CONSIDERATION FROM DISPOSAL OF TIANHE PROJECT

The Group

In July 2010, a framework agreement ("**Agreement**") for the transfer of the entire equity interest in Huan Cheng, the project company for the development of the Tianhe Project, was entered into between the Company, Yaubond and a third party, HNA Hotel for a gross sale consideration ("**Consideration**") of RMB1,090,000,000, before certain adjustments. Such adjustments represent adjustment on net assets transferred to HNA Hotel of RMB38,273,000 and reduction of future development costs and finance costs to be borne by the Group, which are estimated to be RMB20,000,000 and RMB35,000,000 respectively. Details of the adjustment mechanism to the Consideration and timing of the payment of the Consideration was set out in the Company's circular dated 19 August 2010 which is supplemented by a memorandum of understanding signed on 8 September 2010 by the contracting parties in relation to a reduction of the finance cost to be borne by the Group.

As at 31 December 2012, consideration from disposal of Tianhe Project was estimated to be approximately RMB977,431,000 (2011: RMB977,431,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. CONSIDERATION FROM DISPOSAL OF TIANHE PROJECT (Continued)

The Directors consider that the Agreement constitutes an agreement for the sale of goods/services and the criteria for recognition of revenue set out in paragraph 14 of HKAS 18 "Revenue" apply. As the project has not been substantially completed at the end of the reporting period, the Directors are uncertain about the due performance of certain obligations under the Agreement in particular, the costs to be deducted from the Consideration under the prevailing agreement caused by overruns in construction costs which are not due to the change in design plan proposed by HNA Hotel and the delay in construction of the project not caused by the Group.

During the year, the construction progress has been delayed beyond the originally agreed timeline caused by the HNA Hotel's failure to make due payments of contractors' costs. Nonetheless, the management perceives that the Group is honoring and has duly performed its obligations according to the conditions stipulated in the agreement that may otherwise subject to claims by HNA Hotel for event of default.

Despite the delay in construction progress that was caused by HNA Hotel as a result of its failure to obtain the necessary financing for the development of the project, the Directors foresee no overruns in construction costs in material aspects to which the Group is exposed, except that it will have to bear up to RMB20,000,000 for additional construction costs and any extra finance costs as a result the works delay as stipulated under the Agreement.

The Directors expect that the construction will be completed in 2015, taking into account the current progress of the construction and assuming the purchaser will make due payments from the date of this report.

Based on the foregoing circumstances, the Directors are of the view that the revenue recognition criteria set out in HKAS 18 have not been fully satisfied and therefore the disposal of the assets and liabilities of the Tianhe Project is not recognised until when substantial part of the revenue can be ascertained reliably. The revenue and associated costs of the Tianhe Project are deferred until the construction is completed to a substantial progress where the revenue can be reliably measured. Therefore, the net sale consideration is recorded as consideration from disposal of Tianhe Project as at 31 December 2011 and 2012. The costs of the Tianhe Project are not derecognised, but instead included in properties under Tianhe Project in the consolidated statement of financial position as detailed in note 19.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

37. DEFERRED TAX LIABILITIES

Movements of the deferred tax liabilities are as follows:

	Revaluation of properties		
	Investment properties	Properties under development	Total
The Group	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	90,190	76,608	166,798
Charged to profit or loss	3,750	–	3,750
At 31 December 2011 and at 1 January 2012	**93,940**	**76,608**	**170,548**
Charged to profit or loss	**4,500**	**–**	**4,500**
At 31 December 2012	**98,440**	**76,608**	**175,048**

As at 31 December 2012, the Group and the Company have estimated unutilised tax losses of approximately RMB180,207,000 (2011: RMB91,605,000) and RMB10,662,000 (2011: RMB10,658,000) respectively for offsetting against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses as at 31 December 2012 include a balance of approximately RMB10,662,000 which may be carried forward indefinitely, and the remaining balance of approximately RMB169,545,000 which expires in 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. SHARE CAPITAL

(a) Authorised and issued share capital

The Group and the Company	Number of shares '000	Nominal value of share capital HK$'000	Equivalent nominal value of share capital RMB'000
Authorised:			
Ordinary shares of HK$0.01 each	29,000,000	290,000	301,600
Convertible preference shares of HK$0.01 each	1,000,000	10,000	9,716
At 31 December 2011 and 2012	**30,000,000**	**300,000**	**311,316**
Issued and fully paid:			
Ordinary shares of HK$0.01 each			
At 1 January 2011, 31 December 2011 and at 1 January 2012	**1,477,687**	**14,777**	**15,040**
Issue of shares upon rights issue *(Note)*	**738,844**	**7,388**	**6,028**
At 31 December 2012	**2,216,531**	**22,165**	**21,068**
Convertible preference shares of HK$0.01 each			
At 31 December 2011 and 2012	–	–	–
	2,216,531	**22,165**	**21,068**

Note:

On 28 June 2012, the Company completed the rights issue of 738,843,725 ordinary shares at an issue price of HK$0.50 (approximately RMB0.416) per rights share on the basis of 1 rights share for every 2 existing ordinary shares held by members registered on 31 May 2012. The Company raised proceeds of approximately HK$369,422,000 (equivalent to approximately RMB301,375,000) (before deduction of related expenses of approximately RMB4,359,000).

All the new ordinary shares issued during the year ended 31 December 2012 ranked pari passu with the existing shares in all respects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. SHARE CAPITAL (Continued)

(b) Capital management policy

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

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

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

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

The Group	**2012** *RMB'000*	2011 *RMB'000*
Total debt	**635,037**	958,335
Less: restricted bank deposits backing up the money market loans	**(126,000)**	(487,585)
Less: cash and cash equivalents	**(363,203)**	(200,211)
Net debt	**145,834**	270,539
Equity attributable to owners	**1,784,433**	1,564,712
Capital plus net debt	**1,930,267**	1,835,251
Gearing ratio	**7.6%**	14.7%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. RESERVES

The Group	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Property revaluation reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Foreign exchange reserve RMB'000	Capital reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2011	1,216,194	16,116	13,251	34,499	(293,095)	6,471	(369)	7,351	599,622	1,600,040
Recognition of equity-settled share-based payment expenses	–	–	1,519	–	–	–	–	–	–	1,519
Exchange differences arising on foreign operations	–	–	–	–	–	–	(26)	–	–	(26)
Loss for the year	–	–	–	–	–	–	–	–	(51,861)	(51,861)
At 31 December 2011 and at 1 January 2012	**1,216,194**	**16,116**	**14,770**	**34,499**	**(293,095)**	**6,471**	**(395)**	**7,351**	**547,761**	**1,549,672**
Issue of shares upon rights issue *(Note 38)*	**295,347**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**295,347**
Share issue expenses	**(4,359)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,359)**
Reallocation of lapsed options from share-based payment reserve to retained profits	**–**	**–**	**(3,753)**	**–**	**–**	**–**	**–**	**–**	**3,753**	**–**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**2,657**	**–**	**–**	**–**	**–**	**–**	**–**	**2,657**
Exchange differences arising on foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**24**	**–**	**–**	**24**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(79,976)**	**(79,976)**
At 31 December 2012	**1,507,182**	**16,116**	**13,674**	**34,499**	**(293,095)**	**6,471**	**(371)**	**7,351**	**471,538**	**1,763,365**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. RESERVES (Continued)

The Company	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2011	1,216,194	16,116	13,251	123,003	1,368,564
Recognition of equity-settled share-based payment expenses	–	–	1,519	–	1,519
Loss for the year	–	–	–	(91,520)	(91,520)
At 31 December 2011 and at 1 January 2012	**1,216,194**	**16,116**	**14,770**	**31,483**	**1,278,563**
Issue of shares upon rights issue *(Note 38)*	**295,347**	**–**	**–**	**–**	**295,347**
Share issue expenses	**(4,359)**	**–**	**–**	**–**	**(4,359)**
Reallocation of lapsed options from share-based payment reserve to retained profits	**–**	**–**	**(3,753)**	**3,753**	**–**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**2,657**	**–**	**2,657**
Loss for the year	**–**	**–**	**–**	**(53,534)**	**(53,534)**
At 31 December 2012	**1,507,182**	**16,116**	**13,674**	**(18,298)**	**1,518,674**

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

Share premium	The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.
Contributed surplus reserve	The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to the capital re-organisation. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its owners out of the contributed surplus reserve under certain circumstances.
Share-based payment reserve	The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(o).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. RESERVES (Continued)

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

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

(b) **Distributable reserves**

As at 31 December 2012, there were no distributable reserves available for distribution to owners of the Company (2011: RMB47,599,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

Date of grant	Exercise period	Exercise price per share before the completion of rights issue	Adjusted exercise price per share after the completion of rights issue	Number of options outstanding at 1 January 2012	During the year ended 31 December 2012: Options granted	Options exercised	Adjusted upon completion of rights issue	Options lapsed	Number of options outstanding at 31 December 2012
12 September 2006	13 March 2007 to 31 July 2015	HK$1.3100	HK$1.2565	45,900,000	–	–	1,615,273	(13,213,097)	34,302,176
11 August 2011	11 August 2012 to 10 August 2021	HK$0.7000	HK$0.6714	8,666,665	–	–	369,368	–	9,036,033
11 August 2011	11 August 2015 to 10 August 2021	HK$0.7000	HK$0.6714	8,666,667	–	–	369,367	–	9,036,034
11 August 2011	11 August 2018 to 10 August 2021	HK$0.7000	HK$0.6714	8,666,668	–	–	369,368	–	9,036,036
				26,000,000	–	–	1,108,103	–	27,108,103
				71,900,000	–	–	2,723,376	(13,213,097)	61,410,279
Analysis by category:									
Directors				9,800,000	–	–	289,810	(3,000,000)	7,089,810
Other employees				57,100,000	–	–	2,220,469	(10,213,097)	49,107,372
Non-employees				5,000,000	–	–	213,097	–	5,213,097
				71,900,000	–	–	2,723,376	(13,213,097)	61,410,279

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

The Group recognised RMB2,657,000 (2011: RMB1,519,000) (as disclosed in note 10) as equity-settled share-based payment expenses for the year ended 31 December 2012 in relation to share options granted by the Company. The number of exercisable options as at 31 December 2012 comprises 34,302,176 (2011: 45,900,000) (granted in 2006) and 9,036,033 (2011: Nil) (granted in 2011). The weighted average remaining contractual life of the outstanding options as at 31 December 2012 is 4.03 years (2011: 5.75 years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2012 RMB'000	2011 RMB'000
Loss before income tax	**(113,773)**	(69,429)
Adjustments for:		
Finance costs	**10,092**	8,746
Finance income	**(18,513)**	(16,592)
Equity-settled share-based payment expenses	**2,657**	1,519
Depreciation of property, plant and equipment	**1,589**	696
Exchange loss (gain), net	**2,084**	(19,595)
Fair value changes in financial derivative liabilities	**(2,352)**	1,510
Impairment loss on trade and other receivables	**–**	215
Bad debts recovered	**(117)**	(54)
Loss (gain) on disposal of property, plant and equipment	**63**	(10)
Fair value changes in investment properties	**(18,000)**	(15,000)
Write-down of properties held for sale	**77,375**	–
Operating loss before working capital changes	**(58,895)**	(107,994)
Increase in properties under Tianhe Project	**(5)**	(74,888)
Increase in properties under development	**(275,493)**	(386,766)
Decrease in properties held for sale	**24,854**	12,346
(Increase) decrease in consideration receivable	**(13,107)**	378,352
Increase in trade and other receivables	**(48,351)**	(138,295)
Increase in trade and other payables	**29,395**	60,637
Increase in properties pre-sale deposits	**329,400**	417,773
Cash (used in) generated from operations	**(12,202)**	161,165
Income tax paid	**(24,646)**	(16,156)
Other borrowing costs paid	**(15,201)**	(1,898)
Interest paid	**(46,740)**	(41,927)
Net cash (used in) from operating activities	**(98,789)**	101,184

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

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

The Group also participates in the Mandatory Provident Fund Scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously participating in the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (approximately RMB20,000), as increased from HK$20,000 since June 2012. The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

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

43. OPERATING LEASE COMMITMENTS

Lessee

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

The Group	**2012** ***RMB'000***	2011 *RMB'000*
Within one year	**2,419**	2,981
Later than one year but within five years	**–**	915
	2,419	3,896

Lessor

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

The Group	**2012** ***RMB'000***	2011 *RMB'000*
Within one year	**13,412**	19,799
Later than one year but within five years	**14,817**	26,660
Later than five years	**5,698**	7,539
	33,927	53,998

NOTES TO THE FINANCIAL STATEMENTS

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44. COMMITMENTS

	2012	2011
	RMB'000	*RMB'000*
The Group		
Expenditure contracted but not provided for in respect of		
– Property construction and development costs	**779,828**	507,271
– Acquisition of leasehold/investment property	**156,890**	–
	936,718	507,271
Expenditure authorised but not contracted for in respect of		
– Property construction and development costs	**1,865,902**	2,253,484
– Acquisition of land use rights	**931,648**	1,031,648
	2,797,550	3,285,132
The Company		
Expenditure authorised but not contracted for in respect of		
– Property construction and development costs	**1,865,902**	2,253,484
– Acquisition of land use rights	**931,648**	1,031,648
	2,797,550	3,285,132

45. CONTINGENT LIABILITIES

The Group provides guarantees to the extent of approximately RMB385,933,000 as at 31 December 2012 (2011: RMB382,691,000) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates to the property purchasers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

46. PLEDGE OF ASSETS

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

The Group	**2012** *RMB'000*	2011 *RMB'000*
Investment properties	**296,000**	284,000
Properties under development	**1,311,819**	526,699
Properties held for sale	**–**	106,717
Restricted and pledged deposits	**211,000**	487,585
	1,818,819	1,405,001

47. RELATED PARTY TRANSACTIONS

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

(a) As at 31 December 2012, Mr YU Pan and his spouse have provided personal guarantee to a bank in respect of banking facilities extended to the sino-foreign co-operative company, Yucheng, as set out in note 34(a).

(b) **Compensation of key management personnel**

The remuneration of members of key management, including Directors' emoluments as disclosed in note 11, incurred during the year is as follows:

	2012 *RMB'000*	2011 *RMB'000*
Short-term benefits	**11,997**	9,706
Other long-term benefits	**207**	204
Equity-settled share-based payment expenses	**2,627**	1,501
Compensation for loss of office	**–**	3,315
	14,831	14,726

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

48. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

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

(a) Foreign currency risk

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

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

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and cash equivalents				
– US$	**62,814**	73,433	**–**	5
– HK$	**16,822**	4,083	**14,057**	1,981
Bank and other borrowings				
– US$	**(116,910)**	(425,480)	**–**	–
– HK$	**(213,975)**	(151,580)	**(213,975)**	(151,580)
Financial derivative liabilities				
– HK$	**(19,191)**	(4,355)	**(19,191)**	(4,355)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

48. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(a) Foreign currency risk (Continued)

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

	2012		2011	
	Change in exchange rate	**(Decrease) increase in loss after income tax**	Change in exchange rate	(Decrease) increase in loss after income tax
	%	***RMB'000***	%	*RMB'000*
The Group				
If United States dollar weakens against Renminbi	**4%**	**(2,164)**	4%	(14,082)
If United States dollar strengthens against Renminbi	**4%**	**2,164**	4%	14,082
If Hong Kong dollar weakens against Renminbi	**4%**	**(8,654)**	4%	(6,074)
If Hong Kong dollar strengthens against Renminbi	**4%**	**8,654**	4%	6,074
The Company				
If Hong Kong dollar weakens against Renminbi	**4%**	**(9,263)**	4%	(6,158)
If Hong Kong dollar strengthens against Renminbi	**4%**	**9,263**	4%	6,158

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

48. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(b) Interest rate risk

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

	2012		2011	
	Effective interest rate *(% per annum)*	**Amount** *RMB'000*	Effective interest rate *(% per annum)*	Amount *RMB'000*
The Group				
Financial assets				
Fixed rate receivables				
– Loan to non-controlling shareholder of a subsidiary	–	–	15.00%	5,100
– Restricted and pledged deposits	**3.08% to 4.25%**	**211,000**	3.00% to 3.50%	487,585
– Short-term bank deposits	**0.15% to 3.50%**	**89,864**	–	–
Floating rate receivables				
– Restricted and pledged deposits	**0.35%**	**41,320**	0.50%	68,628
– Other cash at bank	**0.01% to 0.35%**	**271,179**	0.00% to 0.50%	197,678
Financial liabilities				
Non-interest bearing borrowings				
– Loans from non-controlling shareholders of a subsidiary	–	**163,600**	6.00%	168,420
Fixed rate borrowings				
– Other borrowings	**18.9% to 20.00%**	**228,336**	20.00% to 23.30%	231,580
Floating rate borrowings				
– Bank borrowings	**3.33% to 7.38%**	**223,910**	4.52% to 6.65%	553,980
The Company				
Financial assets				
Fixed rate receivables				
– Short-term bank deposits	**0.15%**	**12,170**	–	–
Floating rate receivables				
– Other cash at bank	**0.01%**	**1,586**	0.00%	484
Financial liabilities				
Fixed rate borrowings				
– Other borrowings	**18.9% to 20.00%**	**228,336**	20.00% to 23.30%	231,580

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

48. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(b) Interest rate risk (Continued)

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

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

	2012		2011	
	Increase (decrease) in basis points	**(Decrease) increase in loss after income tax *RMB'000***	Increase (decrease) in basis points	(Decrease) increase in loss after income tax *RMB'000*
The Group				
Floating rate financial assets				
Increase in floating rate	**100**	**(3,125)**	100	(2,686)
Decrease in floating rate	**(100)**	**3,125**	(100)	2,686
Floating rate financial liabilities				
Increase in floating rate	**500**	**11,196**	500	27,699
Decrease in floating rate	**(500)**	**(11,196)**	(500)	(27,699)
The Company				
Floating rate financial assets				
Increase in floating rate	**100**	**(16)**	100	(5)
Decrease in floating rate	**(100)**	**16**	(100)	5

(c) Credit risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

48. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(c) Credit risk (Continued)

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

(d) Liquidity risk

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

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

The Group	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to 12 months *RMB'000*	1 to 2 years *RMB'000*	2 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
2012							
Trade and other payables	**9,201**	**23,549**	**212,184**	**–**	**–**	**–**	**244,934**
Bank and other borrowings	**–**	**4,247**	**161,600** *(Note)*	**312,833**	**83,102**	**17,711**	**579,493**
Loans from non-controlling shareholders of a subsidiary	**–**	**–**	**163,600**	**–**	**–**	**–**	**163,600**
Guarantee for property mortgage	**385,933**	**–**	**–**	**–**	**–**	**–**	**385,933**
	395,134	**27,796**	**537,384**	**312,833**	**83,102**	**17,711**	**1,373,960**
2011							
Trade and other payables	7,427	10,935	107,393	–	–	–	125,755
Bank and other borrowings	–	186,665 *(Note)*	429,310 *(Note)*	197,523	40,371	30,474	884,343
Loans from non-controlling shareholders of a subsidiary	–	–	172,875	–	–	–	172,875
Guarantee for property mortgage	382,691	–	–	–	–	–	382,691
	390,118	197,600	709,578	197,523	40,371	30,474	1,565,664

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

48. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

The Company	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2012							
Other payables	**3,603**	**526**	**1,528**	**–**	**–**	**–**	**5,657**
Other borrowings	**–**	**–**	**33,565**	**297,191**	**–**	**–**	**330,756**
Amounts due to subsidiaries	**726,511**	**–**	**–**	**–**	**–**	**–**	**726,511**
Financial guarantee contract	**116,910**	**–**	**–**	**–**	**–**	**–**	**116,910**
	847,024	**526**	**35,093**	**297,191**	**–**	**–**	**1,179,834**
2011							
Other payables	584	526	2,206	–	–	–	3,316
Other borrowings	–	–	110,954	186,415	–	–	297,369
Amounts due to subsidiaries	1,068,011	–	–	–	–	–	1,068,011
Financial guarantee contract	261,447	–	–	–	–	–	261,447
	1,330,042	526	113,160	186,415	–	–	1,630,143

Note: As at 31 December 2012, the bank borrowing of the Group of US$18,600,000 (approximately RMB116,910,000 (2011: RMB425,480,000)), which is due within one year from the end of reporting period, is secured by standby letter of credit issued by a bank that is secured by the Group's bank deposits of RMB126,000,000 (2011: RMB487,585,000) maturing at the same time of the bank borrowing. The management therefore considers that the financial stability has been maintained though these debts are due within a short period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

49. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

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

	2012		2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
The Group				
Financial assets				
Trade and other receivables	**203,804**	***(Note)***	158,488	*(Note)*
Deposit paid for acquisition of leasehold/investment property	**17,432**	***(Note)***	–	–
Consideration receivable	**210,763**	***(Note)***	193,099	*(Note)*
Loan to non-controlling shareholder of a subsidiary	**–**	**–**	5,100	*(Note)*
Restricted and pledged deposits	**252,320**	***(Note)***	556,213	*(Note)*
Cash and cash equivalents	**363,203**	***(Note)***	200,211	*(Note)*
Financial liabilities				
Trade and other payables	**244,934**	***(Note)***	125,755	*(Note)*
Bank and other borrowings				
– the Bonds	**–**	**–**	151,580	150,192
– the Secured Loan	**213,975**	**229,794**	–	–
– other than the Bonds and Secured Loan	**238,271**	***(Note)***	633,980	*(Note)*
Financial derivative liabilities	**19,191**	**19,191**	4,355	4,355
Loans from non-controlling shareholders of a subsidiary	**163,600**	***(Note)***	168,420	*(Note)*
The Company				
Financial assets				
Amounts due from subsidiaries	**139,942**	***(Note)***	110,023	*(Note)*
Other receivables	**400**	***(Note)***	322	*(Note)*
Cash and cash equivalents	**14,057**	***(Note)***	1,986	*(Note)*
Financial liabilities				
Accruals and other payables	**5,657**	***(Note)***	3,316	*(Note)*
Amounts due to subsidiaries	**726,511**	***(Note)***	1,068,011	*(Note)*
Other borrowings				
– the Bonds	**–**	**–**	151,580	150,192
– the Secured Loan	**213,975**	**229,794**	–	–
– other than the Bonds and Secured Loan	**14,361**	***(Note)***	80,000	*(Note)*
Financial derivative liabilities	**19,191**	**19,191**	4,355	4,355

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

49. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (Continued)

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

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

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

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

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

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

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

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

The Group and the Company	**2012** **Level 2** ***RMB'000***	2011 Level 2 *RMB'000*
Financial liabilities at fair value through profit or loss		
– Derivatives	**19,191**	4,355

50. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 15 March 2013.

FIVE YEAR FINANCIAL SUMMARY

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

	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
For the year ended 31 December					
Revenue	**53,803**	32,951	366,493	268,609	502,658
(Loss) profit before income tax	**(113,773)**	(69,429)	926,949	(1,508,925)	642,442
Income tax (expense) credit	**(8,157)**	7,600	(45,798)	409	41,510
(Loss) profit for the year	**(121,930)**	(61,829)	881,151	(1,508,516)	683,952
Attributable to					
– Owners of the Company	**(79,976)**	(51,861)	871,435	(1,502,385)	684,646
– Non-controlling interests	**(41,954)**	(9,968)	9,716	(6,131)	(694)
	(121,930)	(61,829)	881,151	(1,508,516)	683,952
FINANCIAL POSITION					
At 31 December					
Total assets	**4,703,820**	4,417,261	4,032,560	3,836,645	4,654,710
Total liabilities	**(2,900,903)**	(2,792,111)	(2,386,074)	(3,084,503)	(2,395,005)
Net assets	**1,802,917**	1,625,150	1,646,486	752,142	2,259,705
Non-controlling interests	**(18,484)**	(60,438)	(31,406)	(15,675)	(21,806)
Equity attributable to owners of the Company	**1,784,433**	1,564,712	1,615,080	736,467	2,237,899

PARTICULARS OF MAJOR PROPERTIES

	Location	Lease period	Site area	Development type	Gross floor area (GFA)	Effective equity interest % held	Stage of development	Anticipated completion of construction	Open market value	Market value attributable to the Group
			(sq.m.)		*(sq.m. approx.)*				*RMB'000* *(Note 1)*	*RMB'000*
(A)	Details of the Group's properties held for/under development and properties held for sale at 31 December 2012 are as follows:									
1.	A plot of waterfront land for the development of the Zhoutouzui Project, the north of Machong, west of Hongde Road, south and east of Pearl River, Haizhu District, Guangzhou, Guangdong Province, the PRC.	2009 to 2049/ 2059/ 2079	43,609	Above ground: Residential Office Hotel/ Serviced apartment Commercial Ancillary Other Underground: Commercial Carpark and facilities	 158,238 31,370 17,663 9,073 2,912 5,904 1,221 100,690 327,071	72%	Construction of Phase 1 in progress	2015 to 2017	3,200,000 *(Note 2 & 3)*	3,200,000 *(Note 2 & 3)*
2.	Various completed residential units, retail units and car parking units of Phase I and II, whole of III of the residential development known as Skyfame City, Xiaoguan Maochong, Yunyan District, Guiyang, Guizhou Province, the PRC.	2008 to 2048-49/ 2078-79	136,447 (excluding roads)	Residential – Phase 1 and 2 (completed and unsold/unoccupied) – Phase 3 Commercial Public facilities Basement	 155,237 198,129 13,874 17,490 102,735 487,465	55%	Construction of Phase 3 in progress	2014 to 2015	1,338,000 *(Note 2)*	735,900 *(Note 2)*
3.	Phase 1 of Yongzhou Land, known as Tianyu Huafu, junction of Yangming Avenue, Xiangkouguan Road and Lizhi Road, Lingling District, Yongzhou, Hunan Province, the PRC.	2011- 2051/2081	70,950	Residential Commercial Ancillary Carparks	154,095 25,943 3,945 22,923 206,906	70%	Construction in progress	2013 to 2015	250,000 *(Note 2)*	175,000 *(Note 2)*
					1,021,442				4,788,000	4,110,900
(B)	Details of the Group's investment properties at 31 December 2012 are as follows:									
	All the shops on 2/F and 5/F, units 402-403 of 4/F and units 140-142, 6/F of commercial podium, Tianyu Garden Phase 2, situated at Nos. 136, 138, 146 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2000 to 2040		Office/retail	19,790	100%	–	–	513,000	513,000
Total (A to B)									**5,301,000**	**4,623,900**

Notes:

1. The properties were revalued on an open market value basis by an independent firm of professional valuers, DTZ Debenham Tie Leung Limited, Chartered Surveyors, as at 31 December 2012.

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

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