NEW CITY DEVELOPMENT GROUP LIMITED
新城市建設發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0456)

ANNUAL REPORT 2012

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Han Junran (Chairman)
Mr. Fu Yiu Kwong
Mr. Luo Min

Independent Non-Executive Directors
Mr. Chan Yiu Tung, Anthony
Mr. Seto Man Fai
Mr. Zheng Qing

COMPANY SECRETARY
Ms. Lo Moon Fong

REGISTERED OFFICE
Scotia Centre, 4th Floor
P.O. Box 2804, George Town
Grand Cayman, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit D, 17/F, MG Tower,
133 Hoi Bun Road,
Kowloon,
Hong Kong

AUDITORS
Ascenda Cachet CPA Limited
13F Neich Tower,
128 Gloucester Road,
Wanchai,
Hong Kong

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank
Industrial and Commercial Bank of China

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE IN THE CAYMAN ISLANDS
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House,
24 Shedden Road, George Town,
Grand Cayman KY1-1110,
Cayman Islands

SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG
Union Registrars Limited
18/F Fook Lee Commercial Centre
Town Place, 33 Lockhart Road,
Wanchai, Hong Kong

AUTHORISED REPRESENTATIVES
Mr. Han Junran
Mr. Fu Yiu Kwong

Financial Highlights

	2012 **HK$'000**	2011 HK$'000	Change
Revenue	**45,575**	8,000	470%
Profit/(loss) from operations	**164,457**	(3,541)	4,742%
Profit/(loss) for the year	**164,363**	(17,557)	1,036%
Total equity/(deficiency in assets)	**288,115**	(116,715)	347%
Total assets	**614,920**	3,046	20,088%
Total liabilities	**(326,805)**	(119,761)	173%
Basic earnings/(loss) per share (HK cents)	**7.41**	(8.61)	186%

Chairman's Statement

As a result of the combined efforts from professional advisory companies and by the Company, the shares of the Company regained its listing status as from 23 February 2012. The Company also successfully acquired a property project situated in Guangzhou as detailed in the circular dated 23 December 2011. This project will be the Group's main business activity before other business acquisitions.

BUSINESS AND OPERATION REVIEW

BUSINESS REVIEW

The Group recorded a turnover of HK$45,575,000 and a profit after tax of about HK$164,363,000 for the year.

Major business arrangements

Group Restructuring and Resumption of Trading

During the year, the Company has undergone the Group restructuring and resumption of trading as follows:

a) *Share Consolidation and Change of Board Lot Size*

Pursuant to an ordinary resolution passed on 12 January 2012, every four issued and unissued shares of HK$0.001 each in the share capital of the Company was consolidated into one consolidated share (the "Consolidated Share(s)") of HK$0.004. The board lot size for trading was changed to 20,000 Consolidated Shares upon the share consolidation becoming effective.

b) *Increment of Authorised Capital*

The authorised share capital of the Company was HK$10,000,000 divided into 10,000,000,000 shares of HK$0.001 each with 271,758,000 shares in issue prior to the share consolidation becoming effective. Upon the share consolidation becoming effective, the authorised share capital of the Company was HK$10,000,000 divided into 2,500,000,000 Consolidated Shares of HK$0.004 each with 67,939,500 Consolidated Shares in issue.

In order to accommodate the issue of the consideration shares, the bonus shares, the offer shares, the subscription shares, the remuneration shares and the warrant shares, upon the share consolidation becoming effective, pursuant to an ordinary resolution passed by the shareholders of the Company on 12 January 2012, the Company increased its authorised share capital from HK$10,000,000 divided into 2,500,000,000 Consolidated Shares of HK$0.004 each to HK$40,000,000 divided into 10,000,000,000 Consolidated Shares of HK$0.004 each by the creation of additional 7,500,000,000 Consolidated Shares.

c) *Issue of Remuneration Shares and Remuneration Warrants*

Pursuant to an engagement letter entered into between the Company and the joint financial advisers for resumption of trading of the shares of the Company, it was agreed between the Company and the joint financial advisers that the professional fees charged by the joint financial advisers may be settled by (i) the issue of remuneration shares in an aggregate amount of HK$1,000,000 (i.e. 8,333,333 Consolidated Shares); (ii) the issue of remuneration warrants in an aggregate amount of HK$500,000; and (iii) the settlement of the balance of HK$1,000,000 in cash. The Company has issued such remuneration shares and remuneration warrants to the joint financial advisers on 21 February 2012. As at the date of this report, the joint financial advisers have fully exercised the remuneration warrants at a subscription price of HK$0.12 per Consolidated Share.

d) *Subscription of shares*

Pursuant to a subscription agreement entered into among the Company, Mr. Han Junran ("Mr. Han") and Junyi Investments Limited (the "Subscribers") dated 15 November 2011, the Subscribers agreed to subscribe for the shares of the Company in the amount of HK$133.5 million of which, (i) as to approximately HK$71 million being set off against the redemption of the outstanding convertible bonds of the Company (including all interest accrued thereon) held by Mr. Han; and (ii) as to approximately HK$27.5 million being set off against the repayment of the working capital loan provided by Mr. Han to the Company as at the date of completion of the Subscription. The subscription was completed and a total of 1,112,500,000 subscription shares were issued to the Subscribers on 21 February 2012.

e) *Issue of Bonus Shares*

The Company has issued 135,879,000 bonus shares to the shareholders of the Company on the basis of two bonus shares for every existing Consolidated Share held by the shareholders on 21 February 2012.

f) *Completion of Acquisition*

On 24 January 2011, the Company entered into a sale and purchase agreement with two independent third parties 北京誠達順逸商貿有限公司 (Beijing Chengda Shunyi Shangmao Company Limited) ("Vendor A") and Kayuan Enterprise Investment Co., Limited ("Vendor B", together with Vendor A, collectively the "Vendors"), which was supplemented by two supplemental agreements dated 23 August 2011 and 15 November 2011, respectively (collectively, the "S&P Agreements"), pursuant to which, the Vendors agreed to sell and a wholly-owned subsidiary of the Company agreed to purchase (the "Resumption Acquisition") 100% equity interest of French Land Limited and Fudi International Holding Co., Limited and 75% equity interest in Guangdong Changliu Investment Company Limited ("Changliu") from the Vendor A and (ii) 25% equity interest of Changliu from the Vendor B at an aggregate consideration of RMB299,696,000 (equivalent to approximately HK$357.1 million) (the "Consideration"), Changliu is principally engaged in property development and property investment in the PRC.

The Resumption Acquisition was completed on 21 February 2012 and the Consideration was settled as follows:

1. as to RMB30,000,000 by cash;

2. as to RMB20,000,000 by the issuance of 198,600,000 Consolidated Shares to the person designated by the Vendor A;

3. as to RMB50,000,000 by the issuance of 496,500,000 Consolidated Shares to the person designated by the Vendor B;

4. as to RMB124,640,000 by procuring Changliu to settle in cash to Vendor A; and

5. as to RMB75,056,000 by procuring Changliu to deliver a deed of assignment of its receivables in favour of Vendor A at nil consideration.

g) Open Offer

On 20 January 2012, the Company made an open offer (the "Open Offer") on the basis of twenty three offer shares for every three Consolidated Shares held on the record date. As at the date of this report, 26,895,441 Offer Shares were subscribed through the Open Offer. The remaining 88,300,000 and 405,674,059 offer shares were taken up by the Subscribers and the placing agent in accordance with their obligation under an underwriting agreement dated 15 November 2011.

h) Repayment of Convertible Bonds and Loan from a Director

The Company has fully repaid the outstanding principal amounts and all interests accrued thereon of the convertible bonds, and the outstanding loan from a director in an aggregate amount of approximately HK$116 million on 21 February 2012.

i) *Resumption of Trading in Shares*

At the request of the Company, trading in the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 30 December 2003. As all the resumption conditions have been fulfilled, the Stock Exchange approved the resumption of trading of the shares of the Company with effect from 9:00 a.m. on 23 February 2012.

j) *Re-designation of Director*

On 1 March 2012, Mr. Luo Min has been re-designated from a non-executive director to an executive director.

k) *Appointment and resignation of Director and Vice-Chairman*

On 2 April 2012, Dr. Liu Ta-pei ("Dr. Liu") has been appointed as a non-executive director and vice-chairman. On 26 September 2012, Dr. Liu resigned as non-executive director and vice-chairman.

l) *Change of Company name*

On 19 June 2012, the English name of the Company has been changed from "New City (China) Development Limited" to "New City Development Group Limited" and the Company has adopted the new Chinese name "新城市建設發展集團有限公司" and ceased to use the Chinese name "新城市(中國)建設有限公司". The certificate of incorporation on change of name was issued by the Registrar of Companies in Cayman Islands on 16 May 2012.

m) *Continuing Connected Transactions*

On 25 May 2012, the Tenancy Agreements were respectively entered into (i) between New Rank (a wholly-owned subsidiary of the Company) as tenant and Winrich Investments Limited ("Winrich") as landlord; and (ii) between New Rank as tenant and Goldrich Investments Limited ("Goldrich") as landlord for leasing of the Office Premises and the Car-parking Space. The Tenancy Agreements are for a term of two years commencing from that day. Both Winrich and Goldrich are companies indirectly wholly-owned by an associate of a connected person of the Company, and therefore the transactions contemplated under the Tenancy Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Chairman's Statement

RESUMPTION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended since 30 December 2003. As all the resumption conditions have been fulfilled, the Company has made an application to and was approved by the Stock Exchange for the resumption of trading of the shares of the Company with effect from 9:00 a.m. on 23 February 2012.

OUTLOOK

From the perspective of macro-economic, the world economies show sign of recovery but uncertainties remain. While facing with challenges, the Chinese economies still offer ample opportunities. Urbanization will be the next emphasis for the economic growth in China. To this end, the management will continue to utilize its strengths in developing urban complex and focus on identifying opportunities. Meanwhile, the Group will identify opportunities in the arena of sustainable city development. Strategic business alliance will be made with other business partners in order to expand our scope of business, as well as to widen our sources of income. Through this, the new city development mission, which the Group has been emphasizing, can be achieved.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the management team and staff for their dedication and contribution to the Group.

Han Junran
Chairman

FINANCIAL REVIEW

Result

For the year under review, the Group reported a turnover which represented the rental income and management fee income of HK$45,575,000 (2011: 8,000,000). The Group's net profit for the year was approximately HK$164,363,000 (2011: loss of about HK$17,557,000). The basic profit per share for the year was approximately 7.41 HK cents (2011: loss of about 8.61 HK cents). Administrative expenses was approximately HK$17,354,000 (2011: HK$12,426,000). Financial costs was approximately HK$16,403,000 (2011: HK$14,016,000).

Liquidity, Financial Resources and Funding Requirements

As at 31 December 2012, the Group had obligations under hire purchase contracts of approximately HK$697,000 (2011: HK$18,000).

As at 31 December 2012, the Group's total assets was approximately HK$614,920,000 (2011: approximately HK$3,046,000) and total liabilities were of approximately HK$326,805,000 (2011: approximately HK$119,761,000) whereas the convertible bonds was nil as at 31 December 2012 (2011: approximately HK$82,491,000). As at 31 December 2012, the cash and bank balances was approximately HK$46,740,000 (2011: approximately HK$393,000) and the current ratio (current assets/current liabilities) was 1.27 as at 31 December 2012 (2011: 0.02).

Litigation

The Group did not have any litigation as at 31 December 2012.

Gearing Ratio

The gearing ratio (net debt/capital and net debt) was 0.36 as at 31 December 2012 (2011: 44.99).

Capital Structure

During the year ended 31 December 2012, the Company had changed its capital structure. As detailed in note 26 to the consolidated financial statements, during the reporting period, the Company has certain movements in its share capital structure.

Exchange Risks

The majority of the Group's operations are located in the PRC and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assessing exchange risks.

Dividends

The directors did not recommend any dividend for the year ended 31 December 2012 (2011: Nil).

Prospect

The acquisition of Guangzhou Changliu project (the "Property") was accomplished in 2012. The senior management and most of the staff of Changliu have been retained and employed by the Group to ensure smooth handover and operations. The existing buildings in the Property have continuously been rented out for rental income and relevant income, and such income was recorded in the Group's consolidated financial statements. The management is confident that the Property will continue to generate profits as expected.

In 2012, the Group has carried out some renovation works, including power distribution upgrade work and waterproofing work, on the existing buildings in order to enhance its competitiveness for a better rental value. Meanwhile, the Group continues to prospect new tenants when the existing tenancies are about to expire. Miscellaneous redecorating work has been performed upon the request of new tenants.

While deriving the rental and relevant income from the existing buildings, the Group has been proactively planning and preparing for the redevelopment of the Property. The Group has filed a renovation project request and thereafter received a reply thereto from the Renovation Office of the Peoples' Government of Haizhu District, Guangzhou City (the "Renovation Office"), which confirmed that the Property has been included in the diagram database of Three Oldies Reform and the land parcel subject to redevelopment is proposed for commercial and financial use.

After receiving the reply from the Renovation Office, the Group has approached different architects for formulating a redevelopment plan for the Property. Currently, the Group is in the process of negotiating and discussing with those architects on the positioning and the design of the redevelopment plan. Such architects will have to spend substantial time to understand and study the urban planning targets and directions of Guangzhou Government under the overall Three Oldies Reform policy and each of them will then submit its redevelopment plan for the Group to consider. The Group will select one of those redevelopment plans for the Property. Through this selection process, the Group will be able to identify the optimal redevelopment plan. As such, there has not yet been substantial progress in such discussions since 26 October 2012 (the date of the Company's latest announcement for this matter).

After the aforesaid design of the redevelopment plan has been confirmed, the Group will still have to submit the plan to the Renovation Office of the Three Oldies Reform for review and approval. The Group and the Guangzhou Government will only commence their negotiations on the detailed standards and requirements of the redevelopment when the redevelopment reaches that stage. The Group considers that the redevelopment of the Property is currently still in an initial planning stage, and it will publish further announcement to inform the Shareholders and potential investors of any further expansion and development of the Property when the concrete blueprint of the redevelopment plan of the Property has been materialized.

Employees

As at 31 December 2012, the Group has employed about 50 employees in Hong Kong and the PRC. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

Significant Investments and Material Acquisitions

Except as detailed in note 29 to the consolidated financial statements, the Company did not have any significant investments or material acquisitions for the year ended 31 December 2012.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2012.

Commitments

Details of the commitments are set-out in notes 30 and 31 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance and believes that good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the transparency of the Company; (iii) enhance risk management and internal control of the Company and (iv) safeguard the interests of the Shareholders and the Company as a whole.

On 1 April 2012, the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules was amended and renamed as Corporate Governance Code ("Revised CG Code").

The Company has complied with all the Code Provisions in the CG Code during the period from 1 January 2012 to 31 March 2012 and has complied with all the Code Provisions in the Revised CG Code (the "Code Provisions") during the period from 1 April 2012 to 31 December 2012, save for the deviation from the Code Provisions listed below:

The Chairman of the Company is also the chief executive officer of the Company, which deviates from the Code Provision A.2.1 which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As the current nature of the Group's business is not complicated, the Board considers that the current structure is sufficient for monitoring and controlling the operation of the Group. The Company will review the structure from time to time and will make necessary arrangements to observe the provisions of the Listing Rules whenever necessary.

According to the Articles of Association of the Company, the non-executive directors of the Company are not appointed for specific terms. Thus, they are deviated from Code Provision A.4.1 which stipulates that non-executive directors should be appointed for a specific term, subject to re-election and Code Provision A.4.2 which stipulates that all directors appointed to fill a casual vacancy shall hold office only until the next following general meeting and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, in view of the fact that non-executive directors are subject to retirement by rotation as stipulated in the Company's Articles of Association, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code Provisions. In respect of Code Provision A.6.7 of the Revised CG Code, two Independent Non-executive Directors did not attend the annual general meeting of the Company held on 9 May 2012 due to other work commitment. The Company will review its Articles of Association from time to time and will make necessary amendments to ensure observance of the provisions of the Listing Rules whenever necessary.

According to Article 87(1) of the Articles of Association, since the Chairman of the Board, whilst holding such office, is not subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year, Code Provision A.4.2 is deviated. The Chairman plays an essential role in the growth and development of the Group. At presence, the Chairman's continuing presence in the Board is important to assure sustainable development of the Group. Given the importance of the Chairman's role, the Board considers that the relevant article in the Articles of Association has no material impact on the operation of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of the Directors, the Directors have complied with the Model Code throughout the year ended 31 December 2012.

Corporate Governance Report

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the Company (www.newcitychina.com). The 2012 Annual Report will be despatched to our shareholders on or before 30 April 2013 and will be available at the websites of the Stock Exchange and the Company.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") will be held on 28 May 2013. A circular containing the notice of the Annual General Meeting will be published on the Company's website and the Stock Exchange's website and sent to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from 22 May 2013 to 28 May 2013 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited at 18/F Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:30 pm on 21 May 2013.

THE BOARD OF DIRECTORS

Composition and role of the Board

The Board is responsible for the overall strategic development and business operation of the Group and also monitors the financial performance and control on business operation. The Board will from time to time review the Company's governance practices and will provide complete and sufficient information to its members as to ensure effective performance of their responsibilities. During the reporting period, on 1 March 2012, Mr. Luo Min ("Mr. Luo") has been re-designated from a non-executive director to an executive director. Currently, the Board is comprised of three executive Directors and three independent non-executive Directors, which includes:

Executive Directors	:	Mr. Han Junran (Chairman) Mr. Fu Yiu Kwong Mr. Luo Min
Independent Non-Executive Directors	:	Mr. Chan Yiu Tung, Anthony Mr. Seto Man Fai Mr. Zheng Qing

Biographical details of the Board members are set out in page 20 and page 21 of this annual report.

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive directors, together with the requirements of Rule 3.10(2) of the Listing Rules stipulating that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. The Board considers that each independent non-executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules.

The Company has received from each independent non-executive Director an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's business to the executive Directors, senior management and certain specific responsibilities to the Board Committees.

DIRECTORS' TRAINING

According to the Code Provision A.6.5 of the Revised CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company.

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2012 to the Company.

The Company has also continuously updated the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

The individual training record of each Director received for the year ended 31 December 2012 is summarized below:–

Name of Directors	Attending or participating in seminars/conferences/ corporate events or visits/ reading relevant to the business/directors' duties
Executive Director:	
Mr. Han Junran *(Chairman)*	√
Mr. Fu Yiu Kwong	√
Mr. Luo Min	√
Independent Non-executive Directors:	
Mr. Chan Yiu Tung, Anthony	√
Mr. Seto Man Fai	√
Mr. Zheng Qing	√

During the year ended 31 December 2012, four full Board meetings were held by the Company and complies with the Code Provision A.1.1. The Company has already established a profound regime to ensure effective communication among the Directors.

The attendance of each Director is as follows:

Name of Directors	Number of meetings attended
Mr. Han Junran	8/8
Mr. Fu Yiu Kwong	8/8
Mr. Luo Min	8/8
Mr. Chan Yiu Tung, Anthony	6/8
Mr. Seto Man Fai	6/8
Mr. Zheng Qing	6/8

Chairman and Chief Executive Officer

According to Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2012, the roles of the Chairman and the Chief Executive Officer of the Company are performed by Mr. Han Junran. As the current nature of the Group's business is not complicated, the Board believes the current management structure is sufficient for monitoring and controlling the operation of the Group. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals. The Board currently comprises 3 executive Directors and 3 independent non-executive Directors and therefore has a strong independence element in its composition. The Company will review its structure from time to time and make relevant arrangements to observe the provisions of the Listing Rules whenever necessary.

Appointment, re-election and removal of the Directors

The non-executive Directors of the Company are not appointed for specific terms, thus deviates from Code Provision A.4.1. In addition, the Chairman of the Board and/or the managing Directors of the Company are not subject to retirement by rotation, which also deviates from Code Provision A.4.2. However, in view of the fact that non-executive Directors are subject to retirement by rotation in accordance with the Articles of Association of the Company, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code Provisions. Nevertheless, the Company will review its relevant Articles of Association and will propose any amendments to ensure observance of the provisions of the Listing Rules whenever necessary.

In respect of an independent non-executive Director who has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders under the Revised CG Code. Mr. Chan Yiu Tung, Anthony has served on the Board for more than nine years. In compliance with Code Provision A.4.3, Mr. Chan Yiu Tung, Anthony was re-elected to be the independent non-executive Director in the annual general meeting of the Company held on 9 May 2012. The Board considered that he had in-depth understanding of the business and operations of the Company and its subsidiaries and provided independent guidance to the Company throughout the years. Mr. Chan Yiu Tung, Anthony also expressed objective and valuable views to the business development of the Company and he had been demonstrating a strong commitment to his role. The Board further considered that the long service of Mr. Chan Yiu Tung, Anthony would not affect his exercise of independent judgment and he still remained independent in character. The Board was satisfied that Mr. Chan Yiu Tung, Anthony acquired experience, character and integrity to continue fulfilling the role of an independent non-executive Director. His continuing service is in the best interest of the Company and its Shareholders as a whole.

BOARD COMMITTEES

The Board has established various committees under the Board, namely Audit Committee, Remuneration Committee and Nomination Committee (collectively, "Board Committees"), to oversee different aspects of the Group's affairs and to assist in the execution of the Board's responsibilities.

AUDIT COMMITTEE

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Stock Exchange. The Audit Committee shall consist members of non-executive Directors of the Company. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Seto Man Fai (as chairman), Mr. Chan Yiu Tung, Anthony and Mr. Zheng Qing. The terms of reference of the Audit Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Audit Committee are aligned with the Code Provisions set out in the Revised CG Code.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal of such auditor; reviewing the interim and annual reports and financial statements of the Group; and overseeing the Company's financial reporting system including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget, and internal control procedures.

The Audit Committee meets the external auditor regularly to discuss any area of concern during the audit. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with reporting and accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report.

During the year ended 31 December 2012, the Audit Committee held 2 meetings. Each committee meeting has supplied with the necessary financial information of the Group for members to consider, review and access significant issues arising from the work conducted.

Names of members	**Number of meetings attended**
Mr. Seto Man Fai *(Chairman)*	2/2
Mr. Chan Yiu Tung, Anthony	2/2
Mr. Zheng Qing	2/2

During the year under review, the Audit Committee had performed the following work:

- reviewed the annual results for the year ended 31 December 2011 and the interim results for the six months ended 30 June 2012;

- discussed with the management of the Company over the completeness, fairness and adequacy of reporting and accounting standards and policies of the Group in the preparation of the 2012 interim and annual financial statements;

- reviewed and discussed with the external auditor over the financial reporting of the Company;

- recommended to the Board, for the approval by shareholders, of the re-appointment of the auditor; and

- reviewed the internal control procedures of the Group.

The Board also delegated certain corporate governance functions to the Audit Committee, including the review and monitoring of (a) the Group's policies and practices on corporate governance and make recommendations to the Board; (b) the training and continuous professional development of Directors and senior management; (c) the Group's policies and practices on compliance with legal and regulatory requirements; (d) the code of conduct of the Group applicable to employees and Directors; and (e) the Group's compliance with the Code and disclosure in the Corporate Governance Report.

REMUNERATION COMMITTEE

The Company formulated written terms of reference for the Remuneration Committee in accordance with requirements of the Stock Exchange. The Remuneration Committee shall comprise at least three members with majority of independent non-executive Directors, and an independent non-executive Director should take up the role of chairman of the Remuneration Committee. The Remuneration Committee currently comprises two independent non-executive Directors, namely, Mr. Chan Yiu Tung, Anthony (as chairman), and Mr. Seto Man Fai and one executive Director, Mr. Han Junran. The terms of reference of the Remuneration Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Remuneration Committee are aligned with the Code Provisions set out in the Revised CG Code.

The functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure on the remuneration packages for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing a remuneration policy, to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives, to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, and to make recommendations to the Board on the remuneration of independent non-executive Directors.

During the year ended 31 December 2012, the Remuneration Committee held 1 meeting for reviewing the remuneration package of the Directors of the Company and approving the proposed remuneration of a senior management.

Names of members	Number of meetings attended
Mr. Chan Yiu Tung, Anthony *(Chairman)*	1/1
Mr. Seto Man Fai	1/1
Mr. Han Junran	1/1

The emolument payable to Directors and senior management will depend on their respective contractual terms under the employment agreements, if any, and is fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions. Details of the remuneration of the Directors and senior management are set out in note 8 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established on 1 April 2012. Prior to the establishment of the Nomination Committee, its role and functions were performed by the Board. The Chairman from time to time reviewed the composition of the Board with particular regard to the number and the independence of the independent non-executive Directors. The Board also reviewed and determined the suitability and terms for re-appointment of Directors.

In the Board meetings held on 29 February 2012 and 21 March 2012, the Board resolved, among other things, (i) the re-designation of Mr. Luo Min from non-executive Director to executive Director with effect from 1 March 2012; and (ii) the appointment of Dr. Liu Ta-pei ("Dr Liu") as non-executive Director and vice-chairman of the Company (who was formally appointed with effect from 2 April 2012). On 26 September 2012, Dr. Liu resigned as non-executive Director and vice-chairman of the Company. Following his resignation, Dr. Liu also ceased to be a member of the Audit Committee and Nomination Committee with effect from the same date.

The Company formulated written terms of reference for the Nomination Committee in accordance with requirements of the Stock Exchange. The Nomination Committee shall comprise at least three members with a majority of independent non-executive Directors, and the Chairman of the Board or an independent non-executive Director should take up the role of chairman of the Nomination Committee. The Nomination Committee currently consists of one executive Director, Mr. Han Junran (as chairman), and three independent non-executive Directors, namely, Mr. Seto Man Fai and Mr. Chan Yiu Tung, Anthony and Mr. Zheng Qing. The terms of reference of the Nomination Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Nomination Committee are aligned with the Code Provisions set out in the Revised CG Code.

The functions of the Nomination Committee are to review and monitor the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement of the Group's strategy; to identify qualified individuals to become members of the Board; to access the independence of independent non-executive Directors; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive.

The Nomination Committee did not hold any meetings from 1 April 2012 (the date of its establishment) to 31 December 2012. Its members considered that since the necessary and major changes in the composition of the Board to complement the Company's corporate strategy had already been considered and determined by the Directors in the Board meetings held on 29 February 2012 and 21 March 2012 before its establishment, there was no need for the Nomination Committee to hold further meetings during the year for reviewing the same.

SECURITIES TRANSACTIONS BY DIRECTOR

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors of the Company. All the members of the Board have confirmed, following the specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2012. The Model Code also applies to other specified senior management of the Group.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company on their reporting responsibilities for the Company's financial statements for the year ended 31 December 2012 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Company's external auditors in respect of audit and non-audit services for the year ended 31 December 2012 are as follows:

Nature of services	Amount (HK$'000)
Audit services	300,000
Other assurance services	80,000
Non-assurance services	50,000

INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective internal control system to safeguard the Group' assets against unauthorized use or disposition, and to protect the interests of shareholders of the Company.

During the year ended 31 December 2012, the Company has conducted a review, which covered the major control procedures in areas of financial and operations of the Company on the internal control system of the Group and was satisfied with the effectiveness of the Group's internal control procedures.

COMPANY SECRETARY

During the year ended 31 December 2012, the Company Secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

COMMUNICATION WITH THE SHAREHOLDERS

Communication between the Company and its shareholders are achieved through various means including the convening of general meetings, the dispatch of annual reports, interim reports and circulars. The Chairman of the Board also proposes separate resolution for each substantive issue including re-election of directors.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Articles 58 of the Articles of Association, an extraordinary general meeting ("EGM") may be convened by the Board on a written requisition of any one or more shareholders of the Company holding not less than 10% of the paid up capital of the Company carrying the right of voting at general meeting of the Company. The EGM shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene the EGM, the requisitionist(s) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) of the Company.

Enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong for the attention of the Company Secretary.

Articles of Association

There was no change to the Articles of Association to the Company during the year ended 31 December 2012.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of quarterly, interim and annual reports, the publishing and posting of notices, announcements and circulars on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.newcitychina.com) in a timely manner in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. Han Junran, aged 56, obtained a law diploma from China Politics and Laws University in 1988. In 2001, Mr. Han also obtained a master's degree in enterprise management from Capital University of Economics and Business. Mr. Han has worked for the office of The Standing Committee of the National People's Congress of Beijing City and the office of the Beijing Municipal Government since 1988. Mr. Han joined the Group in December 1999 as the Group's general manager. Mr. Han is currently responsible for the Group's overall strategic development and management. Mr. Han was appointed as an executive Director of the Company in December 1999 and the Chairman of the Company in December 2002.

Mr. Fu Yiu Kwong, PhD, aged 55, has over 30 years of experience in the accounting profession. Mr. Fu has worked for various local listed companies. He has extensive experience in auditing, merger and acquisition, business re-engineering and company re-structuring. Mr. Fu joined the Group in March 2003 as an executive Director and is responsible for all financial matters relating to the Group.

Mr. Luo Min, aged 46, is an engineer and has extensive experience in property development, investments and management. Mr. Luo was appointed as a non-executive director of the Company in May 2008. Subsequent to the end of the reporting period on 1 March 2012, Mr. Luo has been re-designated from a non-executive Director to an executive Director.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yiu Tung, Anthony, aged 54, graduated from University of Toronto in 1982. Mr. Chan has over 20 years experience in the construction and property investment field and is currently the managing director of Chan Shum Kee Sam Lee Construction Company Limited. Mr. Chan is currently the member of various organizations including Lions Club of Hong Kong West (President during the years 1996/97 and 2001/02), The Hong Kong Construction Association Ltd (Chairman), H.K. General Building Contractors Association Ltd (member), Kwong Yuet Tong Hong Kong (Council Member) Association of Hong Kong Nanjing Fellows Ltd (Director), The Chinese General Chamber of Commerce (Shamshuipo) (Council Member), Commercial & Industrial Committee of DAB (Council Member), Guangzhou Overseas Friendship-Liaison Association (Council Member), Yan Oi Tong (Directors for the years 2006 to 2009 and 2011 to 2014), Mr. Chan was appointed as an independent non-executive Director of the Company in August 2002.

Mr. Seto Man Fai, aged 45, graduated from the Chinese University of Hong Kong with a bachelor's degree in accounting. He is a member of the American Institute of Certified Public Accountants, a practicing accountant in New York State of the United States of America, a fellow of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also an associate of the Institute of Chartered Accountants in England and Wales. Mr. Seto has extensive experiences in accounting, auditing and corporate finance. Mr. Seto is currently the partner of two accounting firms in Hong Kong. Mr. Seto was appointed as a director of China Packaging Group Company Limited from September 2009 to October 2009. Mr. Seto was appointed as an independent non-executive Director of the Company in October 2009.

Mr. Zheng Qing, aged 47, has extensive experience in property development and management. Mr. Zheng is a director of various companies in the fields of property development management and securities investment in PRC. Mr. Zheng was appointed as an independent non-executive Director of the Company in September 2004.

Report of the Directors

The Directors present their annual report and the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2012.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at an annual general meeting of the Company held on 9 May 2012 and approved by the Registrar of Companies of the Cayman Islands on 16 May 2012, the name of the Company has been changed from "New City (China) Development Limited" to "New City Development Group Limited" and a new Chinese name "新城市建設發展集團有限公司" was adopted by the Company in replacement of "新城市(中國)建設有限公司".

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's principal activities have not changed during the year and is engaged in property development and investment in the PRC. Details of the principal activities of its subsidiaries are set out in note 16 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 30 to 100.

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

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 28 to the consolidated financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of special reserve and share premium less accumulated losses. Under the Companies Law of the Cayman Islands, the special reserve and share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2012, the Company's reserves available for distribution are as follows: (2011: Nil)

	HK$'000
Share premium account	253,344
Special reserve	306,450
Accumulated losses	(462,346)
	97,448

PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Han Junran (Chairman)
Mr. Fu Yiu Kwong
Mr. Luo Min (re-designated from a non-executive director on 1 March 2012)

Non-executive director

Dr. Liu Ta-pei (appointed on 2 April 2012 and resigned on 26 September 2012)

Independent non-executive directors

Mr. Chan Yiu Tung, Anthony
Mr. Seto Man Fai
Mr. Zheng Qing

In accordance with the Articles of Association, Mr. Zheng Qing shall retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Company has received annual confirmations of independence from each of the independent non-executive directors of the Company and as at the date of this report still considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

Mr. Han Junrun, the Chairman and executive director, has entered into a service agreement with the Company commencing 16 December 2002 for a period of three years and continuing thereafter until his directorship is terminated.

Mr. Fu Yiu Kwong, the executive director, has entered into a service agreement with the Company for a period of two years commencing 13 March 2003 and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

Mr. Luo Min, a non-executive director, has been re-designated as an executive director on 1 March 2012. Mr. Luo has entered into a service agreement with the Company commencing 1 March 2012 for a period of 1 year and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

The term of independent non-executive directors is from the date they were last elected to the date of their retirement by rotation in accordance with the Company's Articles of Association.

Apart from the above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity	Nature of interests	Number of underlying shares held	Approximate % of shareholding
Han Junran	Interests of controlled corporation	–	1,036,200,000[(1)]	40.72

Note:

(1) Junyi Investments Limited (a company wholly-owned by Mr. Han Junran) held 1,036,200,000 Shares, representing 40.72% of the issued share capital. For the purposes of the SFO, both Junyi Investments Limited and Mr. Han Junran were deemed to be interested in 1,036,200,000 Shares.

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as the related party transactions and connected transaction disclosed in note 32 to the consolidated financial statements, there were no contract of significance to which the Company, its holding companies and any of its subsidiaries, was a party and in which a director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 14 June 2002 which will remain in force for a period of 10 years from the date of adoption. As at 31 December 2012, no option has been granted since the adoption of the share option scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

MANAGEMENT CONTRACTS

On 30 November 2010, Tong Sun Limited entered into a management agreement with the Company (as amended by a supplemental agreement dated 23 March, 2011), pursuant to which the Company will provide property management services for Tong Sun Limited and in return receive a management fee of HK$8 million per annum for three years commencing from 1 January 2011. Tong Sun Limited will pay the management fee quarterly. Save as disclosed above, no contract of significance had been entered into between the Company or any of the Subsidiaries and the controlling shareholder (as defined in the Listing Rules) of the Company or any of its Subsidiaries.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 31 December 2012, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Long position in the shares of the Company

Name	Capacity	Number of Shares held	Approximate % of shareholding
Junyi Investments Limited	Beneficial owner	1,036,200,000[(1)]	40.72
Trinty Grace Limited	Beneficial owner	496,500,000[(2)]	19.51
Zhou Xi Quan	Interest of controlled corporation	496,500,000[(2)]	19.51
Grandfield Holdings Limited	Beneficial owner	198,600,000[(3)]	7.80
Beijing Chengda Shunyi Shangmao Company Limited	Interest of controlled corporation	198,600,000[(3)]	7.80
Xu Tao	Interest of controlled corporation	198,600,000[(3)]	7.80
Zhong Hui Yin	Interest of controlled corporation	198,600,000[(3)]	7.80

Notes:

(1) Junyi Investments Limited, a company incorporated with limited liability in the British Virgin Islands, is wholly-owned by Mr. Han Junran who is an executive Director.

(2) Trinty Grace Limited held 496,500,000 Shares, representing 19.51% of the issued share capital of the Company. Mr. Zhou Xi Quan held 100% of the issued share capital of Trinty Grace Limited. For the purposes of the SFO, both Trinty Grace Limited and Mr. Zhou Xi Quan were deemed to be interested in 496,500,000 Shares.

(3) Grandfield Holdings Limited (Grandfield) held 198,600,000 Shares, representing 7.8% of the issued share capital of the Company. Grandfield Holdings Limited was a company wholly-owned by Beijing Chengda Shunyi Shangmao Company Limited (Beijing Chengda) and Ms. Zhong Hui Yin and Mr. Xu Tao held 30% and 70% of the issued share capital of Beijing Chengda respectively. For the purposes of the SFO, Grandfield, Beijing Chengda, Ms. Zhong Hui Yin and Mr. Xu Tao were deemed to be interested in 198,600,000 Shares.

Save as disclosed above, as at 31 December 2012, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

CONTINUING CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

For the year ended 31st December 2012, the Group has the following continuing connected transactions which are exempt from the independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules:

On 25 May 2012, the tenancy agreements ("Tenancy Agreements") were respectively entered into (i) between New Rank (a wholly-owned subsidiary of the Company) as tenant and Winrich Investments Limited ("Winrich") as landlord; and (ii) between New Rank as tenant and Goldrich Investments Limited ("Goldrich") as landlord for leasing of the Office Premises and the Car-parking Space. The Tenancy Agreements are for a term of two years commencing from that day. Both Winrich and Goldrich are companies indirectly wholly-owned by an associate of a connected person of the Company, and therefore the transactions contemplated under the Tenancy Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As announced by the Company on 25 May 2012, the aggregate Annual Caps for the Tenancy Agreements, the consideration for the Tenancy Agreements on an annual basis falls within the threshold prescribed in Rule 14A.34 of the Listing Rules. The entering into of the Tenancy Agreements is therefore subject to the reporting and announcement requirements and annual review requirements under Chapter 14A of the Listing Rules and is exempt from the requirement to obtain independent Shareholders' approval.

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

1. in the normal and usual course of the Group's business;

2. on normal commercial terms; and

3. have been carried out in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditor of the Company has reviewed the above continuing connected transactions and provided a letter to the Company confirming that the above continuing connected transactions:

1. have received the approval of the Board;

2. have been entered into in accordance with the relevant agreements governing the transactions; and

3. have not exceeded the annual caps as disclosed in the Company's announcement dated 25 May 2012.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, the directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from 22 May 2013 to 28 May 2013 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited at 18/F Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:30 pm on 21 May 2013.

MAJOR SUPPLIERS

There is no property development project during the year and therefore no purchase payment was paid or payable to suppliers by the Group during the year ended 31 December 2012.

AUDITORS

The consolidated financial statements for the years ended 31 December 2009, 2010, 2011 and 2012 have been audited by Ascenda Cachet CPA Limited, who retire and a resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Ascenda Cachet CPA Limited.

On behalf of the Board

Han Junran
Chairman

27 March 2013, Hong Kong

Independent Auditors' Report

Ascenda CACHET
天健德揚

13F Neich Tower
128 Gloucester Road
Wanchai Hong Kong

To the shareholders of New City Development Group Limited
(formerly known as "New City (China) Development Limited")
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of New City Development Group Limited (formerly known as "New City (China) Development Limited") (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 99, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, 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 ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, 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 HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditors' 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 profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Chi Yuen
Practising Certificate Number P02671

Hong Kong
27 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	*5*	**45,575**	8,000
Cost of sales		**(2,887)**	–
Gross profit		**42,688**	8,000
Other income and gains	*5*	**208,373**	885
Administrative and other operating expenses		**(17,354)**	(12,426)
Finance costs	*7*	**(16,403)**	(14,016)
PROFIT/(LOSS) BEFORE TAX	*6*	**217,304**	(17,557)
Income tax expense	*10*	**(52,941)**	–
PROFIT/(LOSS) FOR THE YEAR		**164,363**	(17,557)
Attributable to:			
Owners of the Company	*11*	**164,363**	(17,557)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*12*		
Basic		**7.41 cents**	(8.61) cents
Diluted		**6.67 cents**	(8.61) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**164,363**	(17,557)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**3,631**	–
Less: Income tax effect	**–**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**3,631**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**167,994**	(17,557)
Attributable to:		
Owners of the Company	**167,994**	(17,557)

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON CURRENT ASSETS			
Property, plant and equipment	*14*	**4,780**	290
Investment properties	*15*	**550,732**	–
Total non-current assets		**555,512**	290
CURRENT ASSETS			
Trade receivable	*17*	**2,000**	2,000
Prepayments, deposits and other receivables	*18*	**10,668**	363
Cash and bank balances	*19*	**46,740**	393
Total current assets		**59,408**	2,756
CURRENT LIABILITIES			
Other payables and accruals	*20*	**27,357**	7,613
Deposits received		**4,519**	–
Finance lease payable	*21*	**134**	18
Interest-bearing bank borrowings, secured	*22*	**12,273**	–
Due to directors	*23*	**1,234**	29,639
Liability component of convertible bonds	*24*	**–**	82,491
Tax payable		**1,359**	–
Total current liabilities		**46,876**	119,761
NET CURRENT ASSETS/(LIABILITIES)		**12,532**	(117,005)
TOTAL ASSETS LESS CURRENT LIABILITIES		**568,044**	(116,715)
NON-CURRENT LIABILITIES			
Other payables	*20*	**8,307**	–
Finance lease payable	*21*	**563**	–
Interest-bearing bank borrowings, secured	*22*	**153,732**	–
Deferred tax liabilities	*25*	**117,327**	–
Total non-current liabilities		**279,929**	–
Net assets/(liabilities)		**288,115**	(116,715)
EQUITY/(DEFICIENCY IN ASSETS)			
Equity attributable to owners of the Company			
Issued capital	*26*	**10,179**	272
Reserves	*28(a)*	**277,936**	(116,987)
Total equity/(deficiency in assets)		**288,115**	(116,715)

Han Junran — *Director*

Fu Yiu Kwong — *Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to owners of the Company							
	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Warrants reserve HK$'000	Equity component of convertible bonds HK$'000	Accumulated losses /retained profits HK$'000	Total equity HK$'000
At 1 January 2011	272	20,773	4,755	–	–	25,027	(149,985)	(99,158)
Total comprehensive income for the year	–	–	–	–	–	–	(17,557)	(17,557)
At 31 December 2011 and at 1 January 2012	**272**	**20,773**	**4,755**	**–**	**–**	**25,027**	**(167,542)**	**(116,715)**
Bonus issue *(note 26 (a)(iii))*	**544**	**(544)**	**–**	**–**	**–**	**–**	**–**	**–**
Issue of new shares *(note 26 (a)(iv)(v)(vi))*	**6,567**	**190,437**	**–**	**–**	**–**	**–**	**–**	**197,004**
Share issue expenses	**–**	**(1,403)**	**–**	**–**	**–**	**–**	**–**	**(1,403)**
Issue of warrants	**–**	**–**	**–**	**–**	**500**	**–**	**–**	**500**
Exercise of warrants *(note 26 (a)(v))*	**16**	**984**	**–**	**–**	**(500)**	**–**	**–**	**500**
Acquisition of subsidiaries *(note 26 (a)(vii))*	**2,780**	**43,097**	**–**	**–**	**–**	**–**	**–**	**45,877**
Redemption of convertible bonds *(note 24)*	**–**	**–**	**–**	**–**	**–**	**(25,027)**	**19,385**	**(5,642)**
Total comprehensive income for the year	**–**	**–**	**–**	**3,631**	**–**	**–**	**164,363**	**167,994**
At 31 December 2012	**10,179**	**253,344**	**4,755**	**3,631**	**–**	**–**	**16,206**	**288,115**

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**217,304**	(17,557)
Adjustments for:			
Finance costs	*7*	**16,403**	14,016
Interest income		**(193)**	–
Depreciation:	*14*		
– owned assets		**757**	59
– leased assets		**93**	17
Write-back of other payables and accruals		**(613)**	(885)
Gain on redemption of convertible bonds	*24*	**(2,259)**	–
Gain on disposal of property, plant and equipment		**(150)**	–
Gain on bargain purchase	*29*	**(2,419)**	–
Fair value gains on investment properties	*15*	**(202,716)**	–
Write-off of property, plant and equipment	*14*	**31**	–
		26,238	(4,350)
Increase in trade receivable		**–**	(2,000)
(Increase)/decrease in prepayments, deposits and other receivables		**(10,267)**	8
Increase in other payables and accruals		**2,419**	2,464
Decrease in receipt in advance		**(256)**	–
Increase in deposits received		**269**	–
Cash generated from/(used in) operations		**18,403**	(3,878)
Hong Kong profits tax paid		**–**	–
Overseas taxes paid		**(1,227)**	–
Interest paid		**(13,948)**	–
Net cash flows from/(used in) operating activities		**3,228**	(3,878)

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
New cash and cash equivalent outflow from acquisition of subsidiaries	*29*	**(23,632)**	–
Purchases of items of property, plant and equipment	*14*	**(3,629)**	(328)
Addition of investment properties	*15*	**(438)**	–
Proceeds from disposal of a motor vehicle		**150**	–
Interest received		**156**	–
Net cash flows used in investing activities		**(27,393)**	(328)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**195,601**	–
Redemption of convertible bonds	*24*	**(88,227)**	–
Net proceeds from issue of warrants		**1,000**	–
(Decrease)/increase in amounts due to directors		**(28,405)**	4,634
Interest paid		**(102)**	(20)
Capital element of finance lease rental payments		**(71)**	(73)
Net cash flows from financing activities		**79,796**	4,541
NET INCREASE IN CASH AND CASH EQUIVALENTS		**55,632**	335
Cash and cash equivalents at beginning of year		**393**	58
Effect of foreign exchange rate changes, net		**(9,285)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**46,740**	393
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**46,740**	393

Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON CURRENT ASSETS			
Investment in subsidiaries	*16*	**49,093**	49,093
CURRENT ASSETS			
Trade receivable	*17*	**2,000**	2,000
Prepayments, deposits and other receivables	*18*	**3,134**	197
Due from subsidiaries	*16*	**122,105**	40,800
Cash and bank balances	*19*	**30,682**	4
Total current assets		**157,921**	43,001
CURRENT LIABILITIES			
Other payables and accruals	*20*	**580**	5,072
Due to subsidiaries	*16*	**97,573**	118,898
Due to directors	*23*	**1,234**	13,384
Liability component of convertible bonds	*24*	**–**	82,491
Total current liabilities		**99,387**	219,845
NET CURRENT ASSETS/(LIABILITIES)		**58,534**	(176,844)
TOTAL ASSETS LESS CURRENT LIABILITIES		**107,627**	(127,751)
Net assets/(liabilities)		**107,627**	(127,751)
EQUITY/(DEFICIENCY IN ASSETS)			
Issued capital		**10,179**	272
Reserves	*28(b)*	**97,448**	(128,023)
Total equity/(deficiency in assets)		**107,627**	(127,751)

Han Junran
Director

Fu Yiu Kwong
Director

1. CORPORATE INFORMATION

New City Development Group Limited (formerly known as "New City (China) Development Limited") (the "Company") is a limited liability company incorporated in Cayman Islands on 10 August 1998. The registered office of the Company is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands and its principal place of business in Hong Kong is situated at Flat D, 17/F., MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong.

The Company is an investment holding company. The Group's principal activity has not changed during the year and is engaged in property development and investment in the PRC.

Pursuant to a special resolution passed at an annual general meeting of the Company held on 9 May 2012 and approved by the Registrar of Companies of the Cayman Islands on 16 May 2012, the name of the Company has been changed from "New City (China) Development Limited" to "New City Development Group Limited" and a new Chinese name "新城市建設發展集團有限公司" was adopted by the Company in replacement of "新城市(中國)建設有限公司".

The shares of the Company have been listed on the main board of the Stock Exchange since 24 May 2000. The shares of the Company were suspended for trading since 30 December 2003 and have been resumed for trading on 23 February 2012.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, which has been measured at fair value.

These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's consolidated financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for first-time Adopters
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial instruments: Disclosures – Transfers of Financial Assets
HKFRS 12 Amendments	Amendments to HKFRS 12 Income Taxes – Deferred tax: Recovery of Underlying Assets

Other than as further explained below regarding the impact of HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on these consolidated financial statements.

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

The presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sales has been rebutted by the Group as the Group's investment properties are held within 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. Accordingly deferred tax has been determined on the basis of recovery through use.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments [4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements [2]
HKFRS 12	Disclosure of Interests in Other Entities [2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – Transition Guidance [2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities [3]
HKFRS 13	Fair Value Measurement [2]
HKAS 1 Amendments	Amendments to HKAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income [1]
HKAS 19 (2011)	Employee Benefits[2]
HKAS 27 (2011)	Separate Financial Statements [2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures [2]
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]
Annual Improvement 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Business combinations and goodwill

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

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

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

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

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Related parties

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

(a) the party is a person or a close member of that person's family and that person, (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

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

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

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

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or joint controlled by a person identified in (a); and

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

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

Leasehold building	Over the lease term
Leasehold improvement	Over the lease term
Furniture, fixtures and equipment	18%-35%
Motor vehicles	15%-25%

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

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of the retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance lease, but are depreciated over their estimated useful lives.

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the consolidated income statement. The loss arising from impairment is recognised in the consolidated income statement in other expenses.

Available-for-sale financial investments

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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

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

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include other payables and accruals, deposits received, finance lease payable, interest-bearing bank borrowings, secured and amount due to directors.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Financial liabilities (Continued)

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

(Where the convertible bonds contain only liability and derivative components) If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial positions, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

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

Revenue recognition

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

(a) from the provision of management services, when the services are rendered;

(b) rental income and related management service income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes Option Pricing Model, further details of which are given in note 27 to the consolidated financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of comprehensive income for a year represents the movement in the cumulative expense recognised as at the beginning and end of that year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Share-based payments (Continued)

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

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

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

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group’s subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated income statement.

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

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provision are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including these current creditworthiness and the past collection history of each customer.

Fair value of convertible bonds

The fair values of the convertible bonds were calculated using the closing price of the Company and the Trinomial Tree Pricing Model. The models involve assumptions on the Company's stock price, expiration, risk-free rate and volatility. Should these assumptions change, there would be material changes to the valuation.

Impairment of non-financial assets (other than goodwill)

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

Estimated fair value of investment properties

The estimation of fair value of investment properties required the Group to estimate the future market value expected to be recovered from the disposal of the investment properties and a suitable discount rate in order to calculate the present value.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's primary operating segment is property development and investment in the PRC. Since this is the only operating segment of the Group, no further analysis thereof is presented.

Geographical information

The Group operates principally in the PRC. Over 90% of the Group's assets are located in the PRC and over 90% of the revenue are generated in the PRC. Accordingly, no further geographical information of total assets and revenue was disclosed.

Information about a major customer

Property management fee income

The major customer of the Group during the years ended 31 December 2012 and 2011 was Tong Sun Limited ("Tong Sun"), a subsidiary being disposed by the Group during the year ended 31 December 2010. The Group managed and operated a property for Tong Sun in the PRC at an annual management fee (the "Property Management Fee Income") of HK$8,000,000 payable on a quarterly basis for a term of 3 years commencing from January 2011.

Rental income and related management service income

There are no significant concentrations of credit risk within the Group because there is a large number of diversified tenants.

5. REVENUE, OTHER INCOME AND GAINS

During the year ended 31 December 2012, revenue, which is also the Group's turnover, represents the value of property management services rendered and gross rental income received and receivable from the investment properties.

An analysis of revenue, other income and gains is as follows:

	2012 HK$'000	2011 HK$'000
Revenue		
Property management fee income	**8,000**	8,000
Rental income and related management service income	**37,575**	–
	45,575	8,000
Other income and gains		
Write-back of other payables and accruals	**613**	885
Interest income	**193**	–
Gain on redemption of convertible bonds *(note 24)*	**2,259**	–
Gain on disposal of items of property, plant and equipment	**150**	–
Gain on bargain purchase *(note 29)*	**2,419**	–
Fair value gains on investment properties *(note 15)*	**202,716**	–
Others	**23**	–
	208,373	885
Total revenue, other income and gains	**253,948**	8,885

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2012 HK$'000	2011 HK$'000
Auditors' remuneration	**300**	230
Depreciation		
– owned assets	**757**	59
– leased assets	**93**	17
	850	76

6. PROFIT/(LOSS) BEFORE TAX (CONTINUED)

	2012 HK$'000	2011 HK$'000
Employee benefits expenses (including directors' remuneration *(note 8)*):		
Wages and salaries	**7,063**	4,301
Pension scheme contributions	**186**	44
	7,249	4,345
Minimum lease payments under operating leases on land and buildings*	**643**	676
Write-back of other payables and accruals	**(613)**	(885)
Write-off of property, plant and equipment *(note 14)*	**31**	–
Gain on redemption of convertible bonds *(note 24)*	**(2,259)**	–
Gain on disposal of items of property, plant and equipment	**(150)**	–
Gain on bargain purchase *(note 29)*	**(2,419)**	–
Fair value gains on investment properties *(note 15)*	**(202,716)**	–
Interest income	**(193)**	–

* Minimum lease payments under operating leases on land and buildings included rental for a director quarter of HK$11,500 (2011: HK$253,000).

7. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on:		
Bank loan *(note 22)*	**13,948**	–
Convertible bonds *(note 24)*	**2,353**	13,986
Finance leases	**26**	20
Other payables	**76**	10
	16,403	14,016

8. DIRECTORS' REMUNERATION

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

	2012 HK$'000	2011 HK$'000
Fees	**360**	360
Other emoluments:		
Salaries, allowances and benefits in kind	**3,347**	3,243
Pension scheme contributions	**37**	12
	3,384	3,255
	3,744	3,615

	Fees HK$'000	**Salaries, allowances and benefits in kind HK$'000**	**Pension scheme contributions HK$'000**	**Total remuneration HK$'000**
2012				
Executive directors				
Mr. Han Junran	**–**	**1,440**	**12**	**1,452**
Mr. Fu Yiu Kwong	**–**	**1,052**	**14**	**1,066**
Mr. Luo Min *(re-designated from a non-executive director on 1 March 2012)*	**–**	**795**	**11**	**806**
	–	**3,287**	**37**	**3,324**
Non-executive director				
Dr. Liu Ta Pei *(appointed on 2 April 2012 and resigned on 26 September 2012)*	**–**	**60**	**–**	**60**
	–	**60**	**–**	**60**
Independent non-executive directors				
Mr. Chan Yiu Tung, Anthony	**120**	**–**	**–**	**120**
Mr. Zheng Qing	**120**	**–**	**–**	**120**
Mr. Seto Man Fai	**120**	**–**	**–**	**120**
	360	**–**	**–**	**360**
	360	**3,347**	**37**	**3,744**

8. DIRECTORS' REMUNERATION (CONTINUED)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2011				
Executive directors				
Mr. Han Junran	–	2,203	–	2,203
Mr. Fu Yiu Kwong	–	1,040	12	1,052
	–	3,243	12	3,255
Non-executive directors				
Mr. Luo Min	–	–	–	–
	–	–	–	–
Independent non-executive directors				
Mr. Chan Yiu Tung, Anthony	120	–	–	120
Mr. Zheng Qing	120	–	–	120
Mr. Seto Man Fai	120	–	–	120
	360	–	–	360
	360	3,243	12	3,615

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

During the year, no emoluments have been paid to the directors as an inducement to join or upon joining the Group; or as compensation for loss of office (2011: Nil).

The number of directors, whose remuneration fell within the following bands is as follows:

	Number of directors	
	2012	2011
Nil to HK$1,000,000	**5**	4
HK$1,000,001 to HK$2,000,000	**2**	2
	7	6

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2011: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2011: three) non-directors, highest paid employees for the year are as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries, allowances and benefits in kind	**868**	572
Pension scheme contributions	**35**	24
	903	596

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2012 **HK$'000**	2011 HK$'000
Nil to HK$1,000,000	**2**	3

10. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: Nil).

Taxes on profits in respect of the Group companies operating elsewhere have been calculated at the rates of tax prevailing in the respective tax countries/jurisdictions in which they operate based on existing legislation, interpretations and practices in respect thereof.

	2012 **HK$'000**	2011 HK$'000
Current tax:		
Hong Kong	**–**	–
Elsewhere	**2,570**	–
	2,570	–
Deferred tax *(note 25)*	**50,371**	–
Total tax charge for the year	**52,941**	–

10. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2012 HK$'000	**2012** %	2011 HK$'000	2011 %
Profit/(loss) before tax	**217,304**		(17,557)	
Tax at the statutory tax rates	**53,154**	**24.5**	(2,897)	16.5
Income not subject to tax	**(3,122)**	**(1.4)**	(1,466)	8.3
Expenses not deductible for tax	**1,523**	**0.7**	4,360	(24.8)
Tax benefit not recognised	**1,036**	**0.5**	3	–
Underprovision in previous year	**350**	**0.2**	–	–
Tax charge at effective tax rate	**52,941**	**24.5**	–	–

The Group had no significant unprovided deferred taxation as at 31 December 2011 and 2012.

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2012 includes a loss of HK$1,458,000 (2011: profit of HK$6,183,000) which has been dealt with in the financial statements of the Company (note 28(b)).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the effect of share consolidation and bonus issue during the year.

The calculations of basic earnings/(loss) per share are based on:

	2012 HK$'000	2011 HK$'000
Earnings/(Loss)		
Profit/(Loss) for the year attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation	**164,363**	(17,557)

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (CONTINUED)

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation	**2,218,250,355**	203,818,500*

* As previously reported, the weighted average number of ordinary shares in issue during the year ended 31 December 2011 has been adjusted to reflect the effect of share consolidation and bonus issue subsequent to the end of the reporting period in January and February 2012, respectively.

The calculation of diluted earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company as adjusted to reflect the interest on convertible bonds and the weighted average number of ordinary shares used in the basic earnings per share calculation, as adjusted for the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Diluted loss per share for the year ended 31 December 2011 have not been prepared, as the convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share.

The calculation of diluted earnings per share for the year ended 31 December 2012 is based on:

	2012
	HK$'000
Earnings	
Profit for the year attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**164,363**
Interest on convertible bonds *(note 7)*	**2,353**
Less: Tax effect (16.5%)	**(389)**
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**166,327**

	Number of shares
	2012
Shares	
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**2,218,250,355**
Effect on dilution – weighted average number of ordinary shares Convertible bonds	**275,037,821**
	2,493,288,176

13. DIVIDENDS

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

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold building HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2012					
1 January 2012:					
Cost	–	–	612	478	1,090
Accumulated depreciation	–	–	(322)	(478)	(800)
Net carrying amount	–	–	290	–	290
At 1 January 2012, net of accumulated depreciation	–	–	290	–	290
Additions	–	1,265	1,338	1,776	4,379
Acquisition of subsidiaries *(note 29)*	964	–	10	–	974
Disposals	–	–	–	–	–
Write off	–	–	(31)	–	(31)
Depreciation provided during the year	(18)	(380)	(288)	(164)	(850)
Exchange realignment	19	–	(1)	–	18
At 31 December 2012, net of accumulated depreciation	965	885	1,318	1,612	4,780
At 31 December 2012:					
Cost	1,106	1,265	1,730	1,855	5,956
Accumulated depreciation	(141)	(380)	(412)	(243)	(1,176)
Net carrying amount	965	885	1,318	1,612	4,780

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2011			
1 January 2011:			
Cost	284	478	762
Accumulated depreciation	(263)	(461)	(724)
Net carrying amount	21	17	38
At 1 January 2011, net of accumulated depreciation	21	17	38
Additions	328	–	328
Write-off	–	–	–
Depreciation provided during the year	(59)	(17)	(76)
At 31 December 2011, net of accumulated depreciation	290	–	290
At 31 December 2011:			
Cost	612	478	1,090
Accumulated depreciation	(322)	(478)	(800)
Net carrying amount	290	–	290

The carrying amount of the Group's motor vehicle held under finance leases (note 21) included in the total amount of motor vehicles at 31 December 2012 amounted to HK$831,366 (2011: Nil).

15. INVESTMENT PROPERTIES

Group

	HK$'000
Acquisition of subsidiaries *(note 29)*	338,494
Addition during the year	438
Change in fair value of investment properties *(note 5)*	202,716
Exchange realignment	9,084
Carrying amount at 31 December 2012	550,732

Investment properties are all situated in the PRC and are held under medium term leases.

Investment properties were leased to tenants for rental income and management service fee (note 5). The investment properties were stated at fair value at the end of the reporting period.

The fair value of the investment properties have been assessed by an independent valuer, Savills Valuation and Professional Services Limited by using the direct comparable approach, to be RMB442,000,000 (equivalent to HK$550,732,000) as at 31 December 2012.

At 31 December 2012, the Group's investment properties with carrying amount of HK$550,732,000 were pledged to secure the bank borrowing, details of which are set out in note 22 to the consolidated financial statements.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**306,695**	306,695
Less: Impairment	**(257,602)**	(257,602)
	49,093	49,093
Due from subsidiaries	**125,885**	44,639
Less: Impairment	**(3,780)**	(3,839)
	122,105	40,800
Due to subsidiaries	**(97,573)**	(118,898)

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

In the opinion of the directors of the Company, the carrying amounts of the amounts due from/(to) subsidiaries approximate to their fair values.

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Company are as follows:

Name	Class of share held	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Direct subsidiaries							
NR (BVI) Holdings Limited*	Ordinary	British Virgin Islands ("BVI")	Hong Kong	US$47,001	100	–	Investment holding
Polywell Finance Corporation*	Ordinary	BVI	Hong Kong	US$1	100	–	Investment holding
Indirect subsidiaries							
New Rank Services Limited	Ordinary	Hong Kong	Hong Kong	HK$2	–	100	General management
New Rank (BVI 2) Limited*	Ordinary	BVI	Hong Kong	US$36,000	–	100	Investment holding
Precise Assets Limited*	Ordinary	BVI	Hong Kong	US$1	–	100	Inactive
Team Success Management Limited*	Ordinary	BVI	Hong Kong	US$1	–	100	Investment holding
Very Best Investment Limited*	Ordinary	BVI	Hong Kong	US$1	–	100	Inactive
French Land Limited* *(Note 1)*	Ordinary	Marshall Islands	Hong Kong	US$50,000	–	100	Investment holding

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal of subsidiaries are as follows:

Name	Class of share held	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Fudi International Holding Co., Limited *(Note 1)*	Ordinary	Hong Kong	Hong Kong	HK$10,000	–	100	Investment holding
Brilliant Centre Limited *(Note 2)*	Ordinary	Hong Kong	Hong Kong	HK$1	–	100	Inactive

Name	Registered capital	Place of incorporation	Place of operation	Paid up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Guangdong Changliu Investment Company Limited* *(Note 1)*	Contributed capital	People's Republic of China ("The PRC")	The PRC	RMB 40,000,000	–	100	Property development in Guangzhou

* Not audited by Ascenda Cachet CPA Limited

Note:

1. These subsidiaries were newly acquired during the year ended 31 December 2012, details of which are set out in note 29 to the consolidated financial statements.

2. The subsidiary was newly incorporated during the year ended 31 December 2012.

17. TRADE RECEIVABLE

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Trade receivable	**2,000**	2,000
Impairment	**–**	–
	2,000	2,000

The trade receivable represented the property management fee income receivable from Tong Sun Limited ("Tong Sun"). The Group's services terms with Tong Sun are mainly on credit of 14 days.

Subsequent to the end of the reporting period, the trade receivable has been fully settled within the credit period.

An aged analysis of the trade receivable as at the end of the reporting period, based on the date of invoice, is as follows:

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Within 1 month	**2,000**	2,000

The aged analysis of the trade receivable that are not considered to be impaired is as follows:

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**2,000**	2,000

Trade receivable represented an amount due from a single customer and the Group has a high concentration of credit risk accordingly. The trade receivable is non-interest bearing.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepaid administrative fee *(note 22)*	**7,220**	–	**–**	–
Prepayments	**544**	192	**539**	183
Deposits	**148**	144	**1**	14
Other receivables	**2,756**	27	**2,594**	–
	10,668	363	**3,134**	197

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**46,740**	393	**30,682**	4
Time deposits	**–**	–	**–**	–
	46,740	393	**30,682**	4

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$15,891,589 (2011: Nil). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with credit worthy banks with no recent history of default. The carrying amounts of the bank balances and cash approximate their fair values.

20. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued expenses	**657**	7,613	**580**	5,072
Other payables	**467**	–	**–**	–
Loan from an ex-shareholder *(note (a))*	**24,920**	–	**–**	–
Due to an ex-shareholder *(note (b))*	**9,620**	–	**–**	–
	35,664	7,613	**580**	5,072
Less: classified as non-current portion	**(8,307)**	–	**–**	–
Current portion	**27,357**	7,613	**580**	5,072

Note:

(a) Amount represented a loan obtained by Changliu from an ex-shareholder, 北京誠達逸商貿有限公司, (the "誠達 Loan") in June 2011 which is unsecured and bears interest (i) at the benchmark annual lending and deposit rate of the People's Bank of China for the first and second year; and (ii) at 130% of the benchmark annual lending and deposit rate of the People's Bank of China for the third year. The principal amount of the 誠達 Loan of RMB20,000,000 (equivalent to HK$24,920,000) is repayable by annual installment of approximately RMB6.67 million (equivalent to HK$8,306,667) each with the first repayment due in May 2012. As at 31 December 2012, the first instalment has not been settled. The interest is repayable on a semi-annual basis.

(b) The amount due to an ex-shareholder is unsecured, interest-free and repayable on demand.

21. FINANCE LEASE PAYABLE

The Group leases a motor vehicle (note 14) for its business operation. The lease is classified as finance lease and has remaining lease terms of 55 months as at 31 December 2012.

At 31 December 2012, the total future minimum lease payments under finance lease and their present values were as follows:

Group	Minimum lease payments 2012 HK$'000	Minimum lease payments 2011 HK$'000	Present value of minimum lease payments 2012 HK$'000	Present value of minimum lease payments 2011 HK$'000
Amounts payable:				
Within one year	176	23	134	18
In the second year	176	–	144	–
In the third to fifth years, inclusive	455	–	419	–
Total minimum finance lease payments	807	23	697	18
Future finance charges	(110)	(5)		
Total net finance lease payable	697	18		
Portion classified as current liabilities	(134)	(18)		
Non-current portion	563	–		

The finance lease payable bears an effective interest rate of 3.5% (2011: 5.5%) per annum and is secured by the leased motor vehicle with a carrying value of HK$831,366 (2011: Nil) (note 14) as at 31 December 2012. The directors consider that the carrying amount of the finance lease payable approximates to its fair value as at the end of the reporting period.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS, SECURED

	Effective interest rate (%)	Maturity	2012 HK$'000	2011 HK$'000
Bank loan – ICBC Loan *(note a)*	8.8%-9.2%	2021	**23,275**	–
Other loan – Sichuan Loan *(note b)*	8.8%-9.2%	2021	**142,730**	–
			166,005	–
Analysed into:				
Repayable:				
Within one year or on demand			**12,273**	–
In the second to fifth years, inclusive			**80,915**	–
Beyond five years			**72,817**	–
Total			**166,005**	–
Current portion			**(12,273)**	–
Non-current portion			**153,732**	–

Note:

As detailed in note 29 to the consolidated financial statements, the Company acquired a 100% equity interest in French Land Limited ("French Land"), Fudi International Holding Co., Limited ("Fudi") and Guangdong Changliu Investment Company Limited ("Changliu", together with French Land and Fudi, collectively the "Changliu Group") on 21 February 2012. All the bank and other borrowings of the Group were assumed from the acquisition of Changliu Group which are denominated in RMB and are secured by legal charges on the investment properties (note 15). Details of the secured interest-bearing bank and other borrowings are as follows:

(a) On 15 June 2011, Changliu entered into a loan agreement ("ICBC Loan Agreement") with Industrial and Commercial Bank of China ("ICBC"), pursuant to which, ICBC agreed to grant a loan ("ICBC Loan") in the amount of RMB140 million to Changliu with a term of 10 years. As at 31 December 2012, RMB19.7 million (equivalent to HK$24,546,200) of ICBC Loan has been drawn down by Changliu. The ICBC Loan bears interest at the benchmark annual lending and deposit rate of the People's Bank of China and is payable by 120 monthly installments from July 2011 onwards.

(b) As for the undrawn balance of RMB120.3 million, ICBC has procured Sichuan Trust Co., Limited ("Sichuan Trust") to enter into a loan agreement (the "Sichuan Trust Loan Agreement") with Changliu on 2 August 2011, pursuant to which, Sichuan Trust agreed to provide a loan in the amount of RMB$120.3 million (the "Sichuan Trust Loan") to Changliu with a term of 10 years. As at 31 December 2012, Sichuan Trust Loan has been fully drawn down by Changliu. The Sichuan Trust Loan bears interest at 120% of the benchmark annual lending and deposit rate of the People's Bank of China with the principal amount payable by 40 quarterly installments and interest payable on a monthly basis since August 2011.

In addition, ICBC charged (i) 30% of the interest on ICBC Loan; and (ii) 10% of the interest on Sichuan Trust Loan, as administrative fee for the arrangement of ICBC Loan and Sichuan Trust Loan, which in aggregate amounting to RMB7,543,640 (equivalent to HK$9,399,375). As at 31 December 2012, the Group has fully prepaid the administrative fee to ICBC, which would be amortised to the consolidated income statement at the effective interest rate over a 10-year period since 2011. During the year ended 31 December 2012, an amount of RMB1,002,900 was charged to the consolidated income statement and the remaining balance of the prepaid administrative fee of RMB5,794,940 (equivalent to HK$7,220,495) was recorded in the consolidated statement of financial position as "prepayments" (note 18).

23. DUE TO DIRECTORS

On 12 January 2011, the Company entered into a loan facility agreement (the "Loan Facility Agreement") with Mr. Han, a director of the Company, pursuant to which, Mr. Han agreed to provide a loan facility (the "Loan Facility") up to an aggregate principal amount not exceeding HK$30,000,000 to the Company as working capital. The Loan Facility in an aggregate amount of approximately HK$27,212,000 (the "Loan") was utilised by the Group as at 31 December 2011. The Loan Facility is unsecured, interest-free and was fully repaid on 21 February 2012.

The remaining balance of the amount due to directors of approximately of HK$1,234,000 (2011:HK$2,427,000) is unsecured, interest-free and have no fixed terms of repayment.

24. CONVERTIBLE BONDS

The convertible bonds recognised in the consolidated statement of financial position are calculated as follows:

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Liability component at 1 January	**82,491**	68,505
Interest expenses *(note 7)*	**2,353**	13,986
Redemption during the year	**(84,844)**	–
Liability component at 31 December	**–**	82,491

The fair value of the convertible bonds was estimated at the issuance date by using the closing share price of the Company and the Trinomial Tree Pricing Model by Asset Appraisal Limited, an independent valuer. The inputs into the model were as follows:

	Convertible Bond A 5 May 2009 (issuance date)	**Convertible Bond B 10 August 2009 (issuance date)**
Stock price	HK$0.03	HK$0.03
Expiration	2 years 10 months	3 years
Risk-free-rate	0.920%	1.264%
Volatility	68.285%	69.077%

The fair value of the liability component at the issuance date was approximately HK$52,407,000 and was classified as "Liability component of convertible bonds" in the non-current liabilities. Accordingly the remaining balance of approximately HK$25,027,000 was classified as "Equity component of convertible bonds" in the consolidated statement of change in equity.

24. CONVERTIBLE BONDS (CONTINUED)

The face value of the convertible bonds as at the end of the reporting period is as follows:

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Convertible Bond A *(notes (i))*	–	14,185
Convertible Bond B *(notes (ii))*	–	63,249
	–	77,434

Note:

(i) On 28 February 2009, the Company and a convertible bond holder entered into an agreement for the issuance of a new convertible bond in a principal amount of HK$14,185,129 (the "Convertible Bond A") for the settlement of certain outstanding bonds in an aggregate principal amount of HK$12,804,817 together with accrued interest of HK$1,380,312. The Convertible Bond A bore interest at Prime Rate plus 2% per annum and was convertible into the ordinary shares of the Company at a conversion price of HK$0.03 per share. The Convertible Bond A was approved by the shareholders on 5 May 2009.

(i) On 18 March 2009, the Company entered into a deed of novation (the "Deed of Novation") with another convertible bond holder (the "Bond Holder") and Mr. Han. Pursuant to the Deed of Novation, the parties agreed that the total outstanding principal amount together with all interest thereon owing by the Company to the Bond Holder be novated from the Company to Mr. Han and the Company be fully released and discharged from all liabilities and obligations, past or future, and any security created.

On the same day, the Company entered into a new loan agreement and subscription agreement (the "New Agreement") with Mr. Han, pursuant to which, the Company was deemed to have drawn down a debt amounting to HK$63,248,596, being the principal amount owed by the Company to the Bond Holder of HK$56,458,150 plus accrued interest of HK$6,790,446 up to the date of execution of the Deed of Novation and the Company issued a new convertible bond (the "Convertible Bond B") therefrom. The Convertible Bond B bore interest at Prime Rate and was convertible into the ordinary shares of the Company at a conversion price of HK$0.03 per share. The Convertible Bond B was approved by the shareholders on 10 August 2009.

On 21 February 2012, both of the Convertible Bond A and Convertible Bond B were redeemed by the Company at an aggregate consideration of HK$88,227,000. As at the date of redemption, the fair value of the liability component of Convertible Bond A and Convertible Bond B was valued by an independent valuers, Asset Appraisal Limited, to be HK$82,585,000 and accordingly, the Group recognised a gain of HK$2,259,000 on redemption of the convertible bonds in the consolidated income statement. The difference between the consideration and the carrying amount of the convertible bonds of HK$19,385,000 was directly transferred to the accumulated losses account. Detailed calculation is as follows:

	Equity component HK$'000	**Liability component HK$'000**	**Total HK$'000**
Consideration for redemption	5,642	82,585	88,227
Carrying value prior to redemption	(25,027)	(84,844)	(109,871)
Gain on early redemption of convertible bonds	(19,385)	(2,259)	(21,644)

25. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year ended 31 December 2012 are as follows:

	Fair value changes on the investment properties	**Prepaid administrative fee**	**Total**
	HK$'000	HK$'000	HK$'000
At the date of acquisition *(note 29)*	63,607	1,466	65,073
Deferred tax charged to income statement during the year *(note 10)*	50,680	(309)	50,371
Exchange realignment	1,857	26	1,883
At 31 December 2012	116,144	1,183	117,327

The above deferred tax liabilities represented taxable temporary differences arising from (i) the fair value changes on the investment properties, and (ii) the prepaid administrative fee calculated at the rate of 25% during the year ended 31 December 2012.

26. SHARE CAPITAL

(a) Shares

	Company	
	2012	2011
	HK$'000	HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.004 each (2011: 10,000,000,000 ordinary shares of HK$0.001 each)	**40,000**	10,000
Issued and fully paid:		
2,544,787,999 ordinary shares of HK$0.004 each (2011: 271,758,000 ordinary shares of HK$0.001 each)	**10,179**	272

A summary of the events during the year with reference to the above movements in the Company's authorised share capital is as follows:

	Number of shares	**Authorised capital**
	'000	HK$'000
At 31 December 2011 and 1 January 2012		
Ordinary shares of HK$0.001 each	10,000,000	10,000
Shares consolidation (i)	(7,500,000)	–
Ordinary shares of HK$0.004 each	2,500,000	10,000
Increase in the authorised share capital (ii)	7,500,000	30,000
At 31 December 2012	10,000,000	40,000

26. SHARE CAPITAL (CONTINUED)

(a) Shares (Continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue '000	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 31 December 2011 and 1 January 2012				
Ordinary shares of HK$0.001 each	271,758	272	20,773	21,045
Shares consolidation (i)	(203,818)	–	–	–
Ordinary shares of HK$0.004 each	67,940	272	20,773	21,045
Bonus issue (iii)	135,879	544	(544)	–
Issue of new shares during the year:				
Open offer (iv)	520,869	2,084	60,420	62,504
Remuneration shares (v)	8,333	33	967	1,000
Subscription (vi)	1,112,500	4,450	129,050	133,500
	1,641,702	6,567	190,437	197,004
Share issue expenses	–	–	(1,403)	(1,403)
	1,641,702	6,567	189,034	195,601
Acquisition of subsidiaries (vii)	695,100	2,780	43,097	45,877
Exercise of warrants (v)	4,167	16	984	1,000
At 31 December 2012	2,544,788	10,179	253,344	263,523

26. SHARE CAPITAL (CONTINUED)

(a) Shares (Continued)

(i) Pursuant to an ordinary resolution passed on 12 January 2012, every four issued and unissued share of HK$0.001 each in the share capital of the Company was consolidated into one consolidated share (the "Consolidated Share") of HK$0.004. The board lot size for trading was changed to 20,000 Consolidated Share upon the share consolidation becoming effective.

(ii) Pursuant to an ordinary resolution passed on 12 January 2012, the authorised share capital of the Company was increased from HK$10,000,000 divided into 2,500,000,000 Consolidated Shares of HK$0.004 each to HK$40,000,000 divided into 10,000,000,000 Consolidated Shares of HK$0.004 each by the creation of additional 7,500,000,000 Consolidated Shares.

(iii) The Company issued 135,879,000 bonus shares at an issue price of HK$0.004 per share to the existing shareholders of the Company on the basis of two bonus shares for every existing Consolidated Share held by the shareholders on 21 February 2012.

(iv) On 20 January 2012, the Company made an open offer (the "Open Offer") on the basis of twenty three offer shares for every three Consolidated Shares held by the shareholders at a price of HK$0.12 per Offer Share. On 21 February 2012, a total of 520,869,500 Offer Shares were issued, of which 88,300,000 and 405,674,059 shares were taken up by the subscribers and the placing agent, respectively.

(v) A portion of the professional fee for resumption of trading of the Company's shares on the Stock Exchange of HK$500,000 was satisfied by the issue of remuneration warrants (the "Warrants") of the Company and HK$1,000,000 was satisfied by the issue of 8,333,333 Consolidated Shares at an issue price of HK$0.12 each. The Warrants and the Consolidated Shares were issued by the Company on 21 February 2012.

The fair value of the Warrants of HK$500,000 was included in warrant reserve in the consolidated statement of financial position at the issue date. The holders of the Warrants are entitled to subscribe for the Consolidated Shares at a subscription price of HK$0.12 per Consolidated Share. During the year, the Warrants have been fully exercised into 4,166,666 Consolidated Shares with aggregate proceeds of HK$500,000.

(vi) Pursuant to an subscription agreement entered into among the Company, Mr. Han Junran ("Mr. Han") and Junyi Investment Limited (the "Subscribers") dated 15 November 2011, the Subscribers agreed to subscribe for the shares of the Company in the amount of HK$133.5 million of which, (i) as to approximately HK$71 million being set off against the redemption of the outstanding convertible bonds of the Company (including all interest accrued thereon) held by Mr. Han; and (ii) as to approximately HK$27.5 million being set off against the repayment of the working capital loan drawn by the Company (note 23) as at the date of completion of the Subscription. The Subscription was completed and a total of 1,112,500,000 Subscription Shares were issued to the Subscribers on 21 February 2012.

(vii) As detailed in note 29 to the consolidated financial statements, during the year ended 31 December 2012, the Group acquired French Land Limited and its subsidiaries at a consideration of RMB299,696,000 (equivalent to approximately HK$357.1 million), of which, RMB70,000,000 was settled by the issuance of 695,100,000 Consolidated Shares to the vendors.

(b) Shares options

Details of the Company's share option scheme are included in note 27 to the consolidated income statements.

27. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was approved and adopted by the shareholders on 14 June 2002. The scheme is valid and effective for a period of 10 years after the date of adoption. The purpose of the scheme is to attract, retain and motivate the Group's full-time employees and directors (including non-executive directors and independent non-executive directors), part time employees with weekly working hours of 10 hours and above and advisors, consultants, providers of goods and/or services and other persons who have contributed to the Group or their trustee (the "Participants") to perform their best in achieving the goals of the Group and at the same time allow them to enjoy the results of the Group attained through their effort and contributions. Under the Share Option Scheme, the board of directors of the Company may grant options to the Participants to subscribe for shares of the Company.

Subject to the terms of the Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the scheme should not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of such limit. Notwithstanding the above, the maximum number of shares in respect of which option may be granted under the scheme and of the Company must not exceed 30% (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on the Stock Exchange) of the total number of shares in issue from time to time. The number of shares in respect of which option may be granted to each participant in aggregate in any 12-month period shall not exceed 1% of the total number of shares in issue, any further grant to that particular participant shall be subject to approval of shareholders of the Company in general meeting with such participant and his or her associates abstaining from voting.

Options granted pursuant to the Share Option Scheme must be accepted within 28 days of the date of option offered, upon payment of HK$1 by way of consideration. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors of the Company but in any event not exceeding 10 years. The exercise price per share will be determined by the board of directors of the Company, but in any event shall not be less than the highest of (i) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the option offered, (ii) the closing price of the shares as quoted in the Stock Exchange's daily quotations sheet on the date of the option offered, and (iii) the nominal value of the shares.

No option has been granted to any directors or employees under the Share Option Scheme since its adoption.

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity on page 35 of the consolidated financial statements.

(b) Company

	Share premium account HK$'000	Special reserve HK$'000	Warrants reserve HK$'000	Equity component of convertible bonds HK$'000 (notes)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	20,773	306,450	–	25,027	(486,456)	(134,206)
Total comprehensive income for the year	–	–	–	–	6,183	6,183
At 31 December 2011 and at 1 January 2012	20,773	306,450	–	25,027	(480,273)	(128,023)
Bonus issue *(note 26(a)(iii))*	(544)	–	–	–	–	(544)
Issue of new shares *(note 26(a)(iv)(v)(vi))*	190,437	–	–	–	–	190,437
Share issue expenses	(1,403)	–	–	–	–	(1,403)
Issue of warrants	–	–	500	–	–	500
Exercise of warrants *(note 26(a)(v))*	984	–	(500)	–	–	484
Acquisition of subsidiaries *(note 26(a)(vii))*	43,097	–	–	–	–	43,097
Redemption of convertible bonds *(note 24)*	–	–	–	(25,027)	19,385	(5,642)
Total comprehensive income for the year	–	–	–	–	(1,458)	(1,458)
At 31 December 2012	253,344	306,450	–	–	(462,346)	97,448

Notes:

i. The special reserve of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the reorganisation, and the nominal amount of the Company's share capital issued as consideration for the acquisition.

ii. Under section 34 of the Companies Law of the Cayman Islands, the special reserve and share premium account is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the special reserve and share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

29. BUSINESS COMBINATION

On 24 January 2011, the Company entered into a sale and purchase agreement with two independent third parties 北京誠達順逸商貿有限公司 (Beijing Chengda Shunyi Shangmao Company Limited)("Vendor A") and Kayuan Enterprise Investment Co., Limited ("Vendor B", together with Vendor A, collectively the "Vendors"), which was supplemented by two supplemental agreements dated 23 August 2011 and 15 November 2011, respectively (collectively, the "S&P Agreements"), pursuant to which, the Vendors agreed to sell and a wholly-owned subsidiary (the "Subsidiary") of the Company agreed to purchase (the "Acquisition") a 100% equity interest of French Land Limited ("French Land") and Fudi International Holding Co., Limited ("Fudi") and 75% equity interest in Guangdong Changliu Investment Company Limited ("Changliu", together with French Land and Fudi, collectively the "Changliu Group") from Vendor A and (ii) 25% equity interest of Changliu from Vendor B at an aggregate consideration of RMB299,696,000 (equivalent to approximately HK$357.1 million) (the "Consideration") of which, (i) as to RMB70,000,000 (equivalent to approximately HK$83.4 million) shall be paid to the Vendors by way of allotment and issue of the shares of the Company of HK$0.004 each at an issue price of HK$0.12 per share; and (ii) as to RMB199,696,000 (equivalent to approximately HK$238 million) be settled by assignment of Changliu's other receivables; and (iii) as to RMB30,000,000 (equivalent to approximately HK$35.7 million), being the remaining balance of the Consideration be settled by cash. Changliu is principally engaged in property development and property investment in the PRC.

29. BUSINESS COMBINATION (CONTINUED)

The fair values of the identifiable assets and liabilities of Changliu Group as at the date of the Acquisition were as follows:

	Note	**Fair value recognised on acquisition** HK$'000
Property, plant and equipment	14	974
Investment properties	15	338,494
Prepayments, deposits and other receivables		252,340
Cash and cash equivalents		13,316
Other payables and accruals		(37,427)
Deposits received		(4,338)
Receipt in advance		(256)
Interest-bearing bank and other borrowings, secured		(168,758)
Deferred tax liabilities	25	(65,073)
Total identifiable net assets at fair value of Changliu Group		329,272
Gain on bargain purchase recognised in the consolidated income statement	5	(2,419)
Total consideration		326,853
Total consideration of the Acquisition is satisfied by:		
The issue of Consideration Shares *(note 26 (a)(vii))*:		
Issued share capital		2,780
Share premium		43,097
The fair value of the Consideration Shares		45,877
Cash		36,948
Assignment of Changliu's other receivables		244,028
		326,853

29. BUSINESS COMBINATION (CONTINUED)

An analysis of the cash flows in respect of the Acquisition of Changliu Group is as follows:

	HK$'000
Cash consideration	(36,948)
Cash and bank balances acquired	13,316
Net outflow of cash and cash equivalents included in cash flows from investing activities	(23,632)

Since the acquisition, Changliu Group contributed HK$37,575,000 to the Group's turnover and HK$162,609,000 to the consolidated profit for the year ended 31 December 2012.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK$52,410,000 and HK$120,260,000, respectively.

30. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years.

At 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**27,330**	–
In the second to fifth years, inclusive	**13,297**	–
	40,627	–

(b) As lessee

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

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**794**	108
2 – 5 years, inclusive	**316**	–
	1,110	108

31. CAPITAL COMMITMENTS

At the end of the reporting period on 31 December 2012, neither the Group nor the Company had any significant capital commitments.

Except for those as stated in note 29 to the consolidated financial statements, the Group and the Company did not have any other capital commitments as at 31 December 2011.

32. RELATED PARTIES TRANSACTIONS

(i) Save as these disclosed elsewhere in these consolidated financial statements, the Group had the following material transactions with related party during the year:

	2012 **HK$'000**	2011 HK$'000
Management Fee Income received from Tong Sun	**–**	3,333
Convertible Bond B interest paid to a director *(note 24)*	**1,663**	10,293
Rental expenses paid to related companies	**478**	–

The related party transactions were conducted on terms negotiated between the Company and the related parties.

(ii) Compensation of key management personnel of the Group:

	2012 **HK$'000**	2011 HK$'000
Short term employee benefits	**4,970**	3,927
Post-employment benefits	**–**	–
Equity-settled share option expenses	**–**	–
Total compensation paid to key management personnel	**4,970**	3,927

Further details of directors' and the chief executive's emoluments are included in note 8 to the consolidated financial statements.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2012

Financial assets

Group

	Financial assets at fair value through profit or loss – designated as such upon initial recognition HK$'000	Financial assets at fair value through profit or loss – held for trading HK$'000	Held-to-maturity investments HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Trade receivable	–	–	–	2,000	–	2,000
Financial assets included in prepayments, deposits and other receivables	–	–	–	2,904	–	2,904
Cash and bank balances	–	–	–	46,740	–	46,740
	–	–	–	51,644	–	51,644

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition HK$'000	Financial liabilities at fair value through profit or loss – held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	–	–	35,664	35,664
Due to directors	–	–	1,234	1,234
Finance lease payables	–	–	697	697
Interest-bearing bank and other borrowings, secured	–	–	166,005	166,005
	–	–	203,600	203,600

33. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

31 December 2011

Financial assets

Group

	Financial assets at fair value through profit or loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Held-to-maturity investments HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Trade receivable	–	–	–	2,000	–	2,000
Financial assets included in prepayments, deposits and other receivables	–	–	–	171	–	171
Cash and bank balances	–	–	–	393	–	393
	–	–	–	2,564	–	2,564

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	–	–	7,613	7,613
Due to directors	–	–	29,639	29,639
Finance lease payables	–	–	18	18
Liabilities component of convertible bonds	–	–	82,491	82,491
	–	–	119,761	119,761

33. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

31 December 2012

Financial assets

Company

	Financial assets at fair value through profit or loss – designated as such upon initial recognition HK$'000	Financial assets at fair value through profit or loss – held for trading HK$'000	Held-to-maturity investments HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Trade receivable	–	–	–	2,000	–	2,000
Financial assets included in prepayments, deposits and other receivables	–	–	–	2,595	–	2,595
Due from subsidiaries	–	–	–	122,105	–	122,105
Cash and bank balances	–	–	–	30,682	–	30,682
	–	–	–	157,382	–	157,382

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition HK$'000	Financial liabilities at fair value through profit or loss – held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	–	–	580	580
Due to subsidiaries	–	–	97,573	97,573
Due to directors	–	–	1,234	1,234
	–	–	99,387	99,387

33. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

31 December 2011

Financial assets

Company

	Financial assets at fair value through profit or loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Held-to-maturity investments HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Trade receivable	–	–	–	2,000	–	2,000
Financial assets included in prepayments, deposits and other receivables	–	–	–	14	–	14
Due from subsidiaries	–	–	–	40,800	–	40,800
Cash and bank balances	–	–	–	4	–	4
	–	–	–	42,818	–	42,818

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	–	–	5,072	5,072
Due to subsidiaries	–	–	118,898	118,898
Due to directors	–	–	13,384	13,384
Liabilities component of convertible bonds	–	–	82,491	82,491
	–	–	219,845	219,845

34. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2011 and 2012, the Group did not have any financial instruments which were measured at fair value.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise other payables and accruals, finance lease payables and secured interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets such as trade receivables which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the consolidated financial statements.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates related primarily to the Group's other payables, convertible bonds and secured interest-bearing bank borrowings, with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variable held constant, of the Group's profit/(loss) before tax.

	Increase/ (decrease) in basic points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
31 December 2012			
Hong Kong dollars	**1%**	**(1,909)**	**–**
	(1%)	**1,909**	**–**
31 December 2011			
Hong Kong dollars	1%	(825)	–
	(1%)	825	–

* Excluding retained profits/accumulated losses.

Foreign currency risk

The directors are of the opinion that almost all of the transactions of the Group and recognised financial assets and liabilities are denominated either in HKD or Renminbi ("RMB") and accordingly the Group's foreign currency risk is not material as the exchange rate of HKD against RMB is quite stable. The Group currently does not have a foreign currency hedging policy. However, the management will monitor the foreign exchange exposure should the need arises.

Credit risk

The Group's credit risk is primarily attributable to trade receivable, prepayments, deposits and other receivables and cash and bank balance. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The allowance for impairment has been made to reduce the exposure to the credit risk in relation to the receivables. Other than this there are no significant concentrations of credit risk within the Group in relation to other financial assets.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, finance leases payables and other interest-bearing loans.

The maturity of the financial liabilities of the Group at the end of each of the reporting period is as follows:

Group

31 December 2012

	On demand or no fixed terms of repayment HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	19,050	–	8,307	8,307	–	35,664
Deposits received	4,519	–	–	–	–	4,519
Finance lease payables	–	22	112	563	–	697
Interest-bearing bank borrowings, secured	–	1,246	11,027	80,915	72,817	166,005
Due to directors	1,234	–	–	–	–	1,234
	24,803	1,268	19,446	89,785	72,817	208,119

31 December 2011

	On demand or no fixed terms of repayment HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	7,613	–	–	–	–	7,613
Finance lease payables	–	18	–	–	–	18
Due to directors	29,639	–	–	–	–	29,639
Convertibles bonds	–	82,491	–	–	–	82,491
	37,252	82,509	–	–	–	119,761

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Company

31 December 2012

	On demand or no fixed terms of repayment HK$'000	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Financial liabilities included in other payables and accruals	**580**	**–**	**–**	**–**	**–**	**580**
Due to subsidiaries	**97,573**	**–**	**–**	**–**	**–**	**97,573**
Due to directors	**1,234**	**–**	**–**	**–**	**–**	**1,234**
	99,387	**–**	**–**	**–**	**–**	**99,387**

31 December 2011

	On demand or no fixed terms of repayment HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	5,072	–	–	–	–	5,072
Due to subsidiaries	118,898	–	–	–	–	118,898
Due to directors	13,384	–	–	–	–	13,384
Convertibles bonds	–	82,491	–	–	–	82,491
	137,354	82,491	–	–	–	219,845

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. At the end of the reporting period, the Group has not significant equity price risk.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes other payables and accruals, deposits received, finance lease payables, secured interest-bearing bank borrowings and amounts due to directors, less cash and bank balances. Capital includes equity attributable to equity holders of the Company. The gearing ratios as at the end of reporting periods were as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Other payables and accruals	**35,664**	7,613
Deposits received	**4,519**	–
Finance lease payable	**697**	18
Interest-bearing bank borrowings, secured	**166,005**	–
Due to directors	**1,234**	29,639
Liability component of convertible bonds	**–**	82,491
Less: Cash and bank balances	**(46,740)**	(393)
Net debt	**161,379**	119,368
Total capital:		
Equity attributable to equity holders	**288,115**	(116,715)
Capital and net debt	**449,494**	2,653
Gearing ratio	**0.36**	44.99

36. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2013.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated/reclassified as appropriate, is set out below. The consolidated financial statements for the year ended 31 December 2008 had been qualified by the auditors of the Company and the consolidated financial statements for the years ended 31 December 2009 and 2010 had been disclaimed by the auditors of the Company. Details of the qualified and disclaimer opinions of the auditors has were set out in the annual reports for the year 2008, 2009, 2010, 2011 and 2012 of the Company, respectively.

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**45,575**	8,000	–	–	–
Cost of sales	**(2,887)**	–	–	–	–
Gross profit	**42,688**	8,000	–	–	–
Other income and gains	**208,373**	885	86,648	9,439	16,286
Administrative and other operating expenses	**(17,354)**	(12,426)	(17,274)	(16,724)	(46,176)
Finance costs	**(16,403)**	(14,016)	(28,069)	(22,818)	(39,931)
PROFIT/(LOSS) BEFORE TAX	**217,304**	(17,557)	41,305	(30,103)	(69,821)
Tax	**(52,941)**	–	–	–	–
PROFIT/(LOSS) FOR THE YEAR	**164,363**	(17,557)	41,305	(30,103)	(69,821)
Attributable to:					
Owners of the Company	**164,363**	(17,557)	41,305	(30,103)	(69,821)
Non-controlling interests	**–**	–	–	–	–
	164,363	(17,557)	41,305	(30,103)	(69,821)

ASSETS AND LIABILITIES

	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**614,920**	3,046	467	855,506	869,537
TOTAL LIABILITIES	**(326,805)**	(119,761)	(99,625)	(973,654)	(982,609)
NON-CONTROLLING INTERESTS	**–**	–	–	–	–
	288,115	(116,715)	(99,158)	(118,148)	(113,072)