China Properties Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1838

Interim Report 2013

POWER VISION

CONTENTS

2 CORPORATE INFORMATION

BOARD OF DIRECTORS
Executive Directors
Dr. Wang Shih Chang, George *(Chairman)*
Mr. Wong Sai Chung *(Managing Director)*
Mr. Xu Li Chang

Non-executive Director
Mr. Kwan Kai Cheong

Independent Non-executive Directors
Mr. Warren Talbot Beckwith
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao

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

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

Nomination Committee
Dr. Wang Shih Chang, George *(Chairman)*
Mr. Warren Talbot Beckwith
Mr. Cheng Chaun Kwan, Michael

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

COMPANY SECRETARY
Ms. Yu Ling Ling

STOCK CODE
1838

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
14th Floor, Wheelock House
20 Pedder Street
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman
KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

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

AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants

COMPANY'S WEBSITE
cpg-group.com

BUSINESS REVIEW AND OUTLOOK

The Asian Financial Crisis that shocked the world in 1997 was in fact the result of the massive withdrawal of funds by Japanese banks from across the region back to their home country. At that time, the Japanese were the largest lender in Asia as well as the key creditor of Thailand. Their withdrawal of funds swiftly drained off the foreign exchange reserves of Thailand and exposed the Thai Baht to speculation. Therefore, many Thai enterprises with huge external debts fell into a credit crunch and the nation's economy plunged quickly. Nonetheless, it is believed that the 1997 Asian Financial Crisis is extremely unlikely to repeat itself today due to the following three reasons. Firstly, back in 1997, the Japanese banks had no choice but to remit their funds back in order to tackle their domestic problems. On the other hand, the Federal Reserve of the United States ("US") currently does not have such an urgent need. Secondly, the Asian countries, particularly China, have accumulated immense foreign exchange such that although the prompt exodus of US dollars would entail economic bubbles across Asia, such bubbles will not burst. Thirdly, having abandoned the laissez faire policy for long, politicians around the world now would not hesitate to intervene in the market as necessary. Who dares to deny the possibility of QE5? Thus, the current Asian financial crisis is merely a confidence issue. Yet, we have still formulated the following strategy to deal with the inevitable economic fluctuation: first of all, we will actively realise our assets, such as the properties available for sale in the amount in RMB100 billion, as soon as possible and in particular before the global investors restructure their investment portfolios. In fact, the Dotcom Crash in 2000 was caused by Mr. Greenspan, the then chairman of the Federal Reserve, who, in view of the Millennium Bug, was reluctant to issue an increase in interest rates in order to curb the irrational market hype. The Federal Reserve didn't raise its interest rate until the second half of 1999, during which it stepped up the rate three times by 0.25% each. Unfortunately, such delayed action had lost its effect and the market downturn finally crept up on the real economy. Sometimes, history repeats itself: according to the latest statistics, the loan and net assets of margin accounts with the New York Stock Exchange has surpassed the level at the end of 1999. The speculators in the US stock market have already had their hands on penny stocks, reflecting excessive leverage, intense speculation and a significant bubble in the US stock market. Although Mr. Greenspan raised the rate six times (including three more times early in 2000), the day was lost and the Dotcom Crash eventually arrived in March 2000. If Mr. Bernanke plays fast and loose, and exits from the quantitative easing policy and increases the Federal funds rate all of a sudden, then the high rate era might return and money supply across the globe will be tightened. Fortunately, the current gearing ratio (the ratio of net borrowings to total assets) of the Group is less than 10% with a loan buffer of HK$18 billion before reaching a dangerous gearing level. The Group targets at utilising some of the loans with lower interest rates by the end of this year and adheres to its low-debt-ratio treasury policy. We will not only survive the grave market crisis, but also profit from the new round of investment reshuffle.

BUSINESS ENVIRONMENT

Overview of the Mainland Property Market

China's economic growth continued but started to slow down since 2011. Overall, the real GDP growth for the 1st half of 2013 was 7.6%, while the growth for the whole of 2012 was 7.8%.

Residential property prices in China grew slowly in the 1st half of 2013. According to the National Bureau of Statistics of China, among 70 medium and large-sized cities, the sale prices of newly constructed residential properties in 63 cities recorded year-on-year growth in June 2013. However, none of the above cities had a growth rate higher than 2.5%.

In the 1st half of 2013, the total retail sales of China reached RMB11,076.40 billion, up 12.7% year-on-year. The prime retail property sector remained strong. Most cities saw retail rents trending upward steadily. International fashion brands and F&B retailers continue to expand their store network actively in 2nd and 3rd tier cities.

The office property market especially the Grade A sector of the major cities experienced stagnant rental growth in the 1st half of 2013. Under the impact of global economy uncertainties and slowing demand, office occupiers were cautious in expanding in 2nd tier and 3rd tier cities, such as Wuhan, Chengdu and Shenyang. The subdued demand and the substantial supply of Grade A office spaces put pressure on overall rental growth and pushed up the vacancy rate.

Overview of the Shanghai's Property Market

Shanghai was in the process of economic restructuring since 2011. In the 1st half of 2013, the real GDP grew by 7.7% to RMB1,016.85 billion, which was slightly higher than the national growth of 7.6%.

Shanghai's residential property market continued to grow after the release of the "Five New Measures" in March 2013. In the 2nd quarter of 2013, commodity housing sales volume increased by 11.9% year-on-year and recorded a modest increase in the overall sale prices.

Prime retail property sector remained stable and shopping malls continued to make tenant mix adjustments throughout the 1st half of 2013. Several luxury and high-end brands continued their expansion. For instance, American retailer Gap opened a 1,017 square meters store in Super Brand Mall and Breitling opened the 1st Shanghai flagship store on West Nanjing Road. The average asking rent of prime retail ground floor shopping mall spaces climbed to RMB2,100 per square meter per month, showing an increase of 2.0% quarter-on-quarter and 11.5% year-on-year.

Office rents fell slightly in the 2nd quarter of 2013. Grade A office rents posted a 1.1% decline in the 2nd quarter in general. However, office spaces in prime districts continued to see rental growth. Overall vacancy rates in Shanghai posted sharply increased as two quality office projects delivered in Puxi during the 1st quarter of 2013. Shanghai's Grade A office vacancy rate increased to 6.2% in the 2nd quarter of 2013. In the next few years, a large number of high-quality office spaces will appear in the emerging submarkets. As a result, office landlords have started to adjust their tenant mix to prepare for the possible impact.

Overview of the Chongqing's Property Market

Chongqing's economy grew steadily in the 1st half of 2013. In the 1st half of 2013, the city's real GDP grew by 12.4% year-on-year to RMB584.05 billion, the 2nd fastest growth rate among all cities in China. The growth surpassed the national growth of 7.6%.

Chongqing's residential property market showed a mild growth in the 2nd quarter of 2013, the average price of luxury apartments was increased by 2.0% quarter-to-quarter to approximately RMB15,000 per square meter. Taking into account the increasing demand and limited supply, the residential property market would keep growing at steady pace.

Prime retail rents continued to increase slightly by 1.0% quarter-on-quarter in the 2nd quarter of 2013. Market absorption remained brisk. The average vacancy rate fell to 4.5%. Shopping Malls in prime area continued to make tenant mix adjustment throughout the quarter. Longfor actively repositioned its two existing shopping malls, North Paradise Walk and West Paradise Walk. The 2 shopping malls attracted new tenants including Hui Lau Shan, Miss Sixty and Honeymoon Dessert.

The office property market was observed to be quiet in the 2nd quarter of 2013. The prime office rent remained steady. Demand for office space slowed down as tenants became cautious about expansion in the city. Market vacancy slightly rose to 28.0% in the 2nd quarter of 2013. World Finance Centre in Jiefangbei CBD and Rongheng Times Square in Guanyinqiao were scheduled to deliver in the 2nd half of 2013.

Outlook of the Mainland Property Market

The "Five New Measures" launched in the 1st quarter of 2013 showed the intention of the central government to adjust residential property prices to a reasonable level. It is expected that the local governments will follow the central government to maintain tightening measures on residential properties throughout 2013. Therefore, the scenario of stable price growth with healthy transaction volume is likely to be seen in the short run.

It is anticipated that the commercial property market would be active in the 2nd half of 2013 as investors are looking for high quality commercial assets among the 1st and 2nd tier cities. In addition, with the expansion of the local insurance industry, flowing of insurance premiums into commercial property segment would become more usual. This would help to boost up the commercial investment market in the long run. Rental level of commercial properties is expected to be relatively stable, with the capital values growing moderately. This would lead to further tightening of yield.

FINANCIAL REVIEW

The Group's profit attributable to equity holders for the first half of 2013 amounted to HK$677 million (six months ended June 30, 2012: HK$952 million), a decrease of 29% when compared to the same period of 2012. The profit before taxation, excluding change in fair value of investment properties and conversion option derivative, amounted to HK$260 million (six months ended June 30, 2012: profit of HK$58 million).

Earnings per share were HK$0.37 (six months ended June 30, 2012: HK$0.53), a decrease of 30%, in line with the general market conditions with the decrease in rate of investment property appreciation.

Total assets increased to HK$62,661 million from HK$60,683 million as at December 31, 2012, as the Group continues its investment in premium property developments with attendant appreciation in fair values. Net assets, the equivalent of shareholders' funds, similarly continued to grow to HK$41,699 million (December 31, 2012: HK$40,310 million), reflecting the solid investment value to shareholders. In terms of value per share, net assets value per share is HK$23.05 as at the statement of financial position date, as compared to HK$22.28 as at December 31, 2012.

The Group's revenue of HK$701 million (six months ended June 30, 2012: HK$286 million) increased by 1.5 times when compared with the corresponding period last year which was mainly resulted from the increase in revenue from sales of residential properties of Chongqing Manhattan City.

The revenue from sales of residential properties amounted to HK$692 million (six months ended June 30, 2012: HK$275 million), increased by 152% as compared with the corresponding period last year. The Group delivered a gross floor area ("GFA") of approximately 1,412,481 sq. ft. in the six months ended June 2013 as compared to 597,387 sq. ft. in the corresponding period last year.

Gross profit margin for sales of development properties was 46% (six months ended June 30, 2012: 39%).

Income from property leasing decreased by 53% to HK$5 million (six months ended June 30, 2012: HK$10 million). The decrease was attributable to the termination of certain tenancies for the future upgrade construction of the mall development. On the other hand, property management income increased to HK$4 million (six months ended June 30, 2012: HK$1 million) following the delivery of residential properties.

The construction of Chongqing Manhattan City, Lijiu Road with total GFA of approximately 21 million sq. ft. continues. During the six months ended June 30, 2013, the Group generated income of HK$692 million from sales of residential properties of Chongqing Manhattan City Phase I and Phase II. Deposits received on sales of properties decreased to HK$486 million from HK$1,147 million as at December 31, 2012 due to the recognition of revenue upon delivery of Chongqing Manhattan City Phase I and Phase II.

Other income and gains were HK$15 million (six months ended June 30, 2012: HK$13 million), an increase of 15%, mainly representing the net exchange gain of HK$13 million (six months ended June 30, 2012: HK$9 million).

During the period under review, selling expenses were HK$18 million (six months ended June 30, 2012: HK$10 million), increased by 0.8 times. Increase in advertising and promotion expenses were generally in line with the increase in sales of the residential properties.

Administrative expenses during the first half of 2013 were HK$55 million (six months ended June 30, 2012: HK$63 million) which decreased by 13% compared to the same period of 2012. The decrease was mainly attributed to less property related expenses were paid as property construction activities were reduced upon delivery of properties.

Finance costs represent mainly interest expenses and other borrowing costs in relation to bank and other borrowings, effective interest expense of convertible note, loan from a shareholder and the fixed rate senior notes (the "Note") issued in April 2007. Since all finance costs equivalent to HK$340 million (six months ended June 30, 2012: HK$145 million) were wholly capitalized on various projects, the finance costs charged to profit and loss were nil (six months ended June 30, 2012: Nil).

The changes in fair value of investment properties were HK$547 million (six months ended June 30, 2012: HK$1,207 million). Although the transaction volume of the property market was shrinking with the launch of new real estate tightening measures in recent years, the property price remained steady during the period because the underlying demand remained strong. On the other hand, the central government's blueprint that advocates Shanghai to become an international financial hub in 2020 also benefited local businesses including the retail and office property markets. Combining these factors, the valuation of investment properties in the first half of 2013 is still appreciating. The changes in fair value of investment properties in Shanghai experienced an increase of HK$276 million (June 30, 2012: HK$1,002 million). Economic performance in Chongqing, which enjoys one of the highest GDP growth cities in the PRC, was also robust. The changes in fair value of investment properties in Chongqing experienced an increase of HK$271 million (June 30, 2012: HK$205 million).

Income tax expense was HK$170 million (six months ended June 30, 2012: HK$313 million), a decrease of 46%. The Group's effective income tax rate was 20.1% (six months ended June 30, 2012: 24.7%). The decrease in income tax expenses was brought by the changes in fair value of investment properties for the first half of 2013.

LIQUIDITY AND FINANCING

The Group monitors its liquidity requirements on a short to medium term basis and arranges refinancing of the Group's borrowing when appropriate. During the period, the Group raised net new bank and other loans totaling of approximately HK$695 million (six months ended June 30, 2012: HK$157 million). In addition, the Group obtained additional advance from a shareholder of approximately HK$117 million (six months ended June 30, 2012: net repayment of the advance of HK$436 million).

As at the statement of financial position date, the Group's Note, bank and other borrowings and amount due to/loan from a shareholder and convertible note amounted to approximately HK$797 million, HK$4,466 million, HK$1,307 million and HK$296 million respectively, and the Group's total borrowings were HK$6,866 million, an increase of HK$916 million when compared to December 31, 2012. HK$3,601 million is repayable within one year whilst the remaining is repayable in the second to fifth year inclusive.

The gearing ratio of the Group as at June 30, 2013 was 14.7% (as at December 31, 2012: 13.6%), determined as proportion of the Group's net borrowings (after deducting bank balances and bank deposits) to the shareholder's funds.

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

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

TREASURY POLICIES

As at the statement of financial position date, approximately 49% of the Group's borrowings were in RMB with the balance in US$ and HK$. The Group derives its revenue mainly in RMB. Bank balances are maintained mainly in HK$, US$ and RMB.

The bank borrowings are mainly on a floating rate basis while the Note and convertible note are on a fixed rate basis.

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

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

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

CHARGE ON ASSETS

As at the statement of financial position date, certain subsidiaries of the Group pledged assets with an aggregated carrying value of HK$30,285 million (December 31, 2012: HK$29,019 million) to secure bank loan facilities.

CONTINGENT LIABILITIES

As at the statement of financial position date, we guaranteed mortgage loans to purchasers of our properties in the aggregate outstanding principal amount of HK$1,648 million (December 31, 2012: HK$1,386 million). During the first half of 2013, there was no default case. There was no bank deposits pledged for any of the guarantee as at June 30, 2013 (December 31, 2012: Nil).

Legal disputes

As at June 30, 2013, the Group is subjected to several legal claims with aggregate amount of approximately HK$378 million (unaudited) (December 31, 2012: HK$360 million) in relation to disputes under construction contracts in the properties development operation during the normal course of business. In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that not met the required standards and pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or in the process of making counter-claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group. The net financial effect of both claims and counter-claims is considered insignificant.

Based on the advices from the independent legal advisors, those outstanding legal claims are still in preliminary stage and the final outcome is unable to be determined at this stage. Accordingly no provision is required to be made in the condensed consolidated financial statements. The directors of the Company are of the opinion that the Group has reasonable ground to defend those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of any interim dividend for the period.

EMPLOYEES AND REMUNERATION POLICY

As at June 30, 2013, the Group had approximately 379 employees (June 30, 2012: 354 employees) in Hong Kong and the PRC. There is no significant change in the Group's emolument policies.

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

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

As at June 30, 2013, the interests and/or short positions of the directors and chief executives and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

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

As at June 30, 2013, the long position in ordinary shares and underlying shares of the Company of the directors and the chief executives are as follows:

Name of director	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company	*Note*
Mr. Wong Sai Chung ("Mr. Wong")	Corporate	1,556,611,570 shares	86.04%	*(i) & (ii)*

Note:

(i) Of these shareholding interests, 1,350,000,000 shares of the Company are directly held by Hillwealth Holdings Limited ("Hillwealth") whose entire issued share capital is owned by Mr. Wong.

(ii) Such shareholding interests also included deemed interests in 206,611,570 shares of the Company to be issued upon the exercise of the conversion rights under the convertible note of HK$500 million of the Company agreed to be subscribed for by Hillwealth pursuant to the conditional subscription agreement dated January 27, 2012 entered into between the Company and Hillwealth (as amended by a supplemental agreement dated February 21, 2012).

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

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

Notes:

(iii) CPH (Shanghai) is an indirectly owned subsidiary of the Company. It has in issue 100 non-voting deferred class "B" shares (the rights attached to which are set out in the Prospectus), all of which are beneficially owned by Concord China Land Holdings Limited which is in turn beneficially and wholly owned by Pacific Concord Holding Limited ("PCH") (which is wholly owned by Mr. Wong).

(iv) As Hillwealth directly holds approximately 74.62% of the total issued share capital of the Company and thus being the holding company of the Company, Hillwealth is an associated corporation of the Company under the SFO. The entire issued share capital of Hillwealth is owned by Mr. Wong.

As at June 30, 2013, Mr. Wong was a director of Hillwealth, Concord China Land Holdings Limited and PCH, and Dr. Wang Shih Chang, George and Mr. Kwan Kai Cheong were also directors of PCH.

Save as disclosed herein, as at June 30, 2013, none of the directors or chief executives nor their associates had or deemed to have any interests or short positions in any shares or underlying shares or debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in "Directors' and Chief Executives' Interests in Shares and Underlying Shares and Debentures", the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued capital of the Company as at June 30, 2013.

SHARE OPTION SCHEME

On January 17, 2011, 20,000,000 options to subscribe for the Company's ordinary share of HK$0.1 each with the exercise price of HK$2.67 each were granted to certain eligible participants, and the 20,000,000 options were lapsed on 22 March 2013. On July 3, 2013, 36,000,000 options to subscribe for the Company's ordinary share of HK$0.1 each with the exercise price of HK$1.93 each were granted to certain eligible participants. None of the grantees is a director, chief executive or substantial shareholder of the Company, nor any of their respective associates.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the six months ended June 30, 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. The directors have confirmed that, following specific enquiry by the Company, they have complied with the required standards set out in Model Code during the six months ended June 30, 2013.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has fully complied with all code provisions in the Code on Corporate Governance Practices ("CG Practices") set out in Appendix 14 to the Listing Rules throughout the six months ended June 30, 2013.

AUDIT COMMITTEE

The Company has established the Audit Committee and has formulated its written terms of reference in accordance with the provisions set out in the Code on CG Practices. The Audit Committee comprises five Independent Non-executive Directors, namely Mr. Warren Talbot Beckwith (Chairman of the Audit Committee), Mr. Luk Koon Hoo, Mr. Garry Alides Willinge, Mr. Cheng Chaun Kwan, Michael and Mr. Wu Zhi Gao. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal controls procedures, review of the Group's financial information and review of the relationship with the external auditor of the Company. The Audit Committee and the external auditor, Messrs Deloitte Touche Tohmatsu, Certified Public Accountants, have reviewed the unaudited interim results of the Group for the six months ended June 30, 2013.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with majority of the members being Independent Non-executive Directors. The Remuneration Committee comprises the Chairman of the Board, Dr. Wang Shih Chang, George, and two Independent Non-executive Directors, namely Mr. Luk Koon Hoo and Mr. Garry Alides Willinge (Chairman of Remuneration Committee).

The principal duties of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure for directors and senior management and on the establishment of formal and transparent procedures for developing policy on such remunerations.

APPRECIATION

The directors of the Company would like to take this opportunity to express our sincere thanks to all the shareholders for their continuous support and to all our staff for their dedication and contribution to the Group during the reporting period.

By Order of the Board
Dr. Wang Shih Chang, George
Chairman

Hong Kong, August 29, 2013

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF CHINA PROPERTIES GROUP LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Properties Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 13 to 36, which comprise the condensed consolidated statement of financial position as of June 30, 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to note 1 to the condensed consolidated financial statements which indicates that, as of June 30, 2013, the Group's current liabilities exceeded its current assets by approximately HK$307,474,000. The Group had other commitments contracted for but not provided in the condensed consolidated financial statements of approximately HK$930,989,000 as disclosed in note 17 to the condensed consolidated financial statements. In addition, there are borrowings and fixed rate senior notes with carrying amounts of HK$2,552,147,000 and HK$797,311,000 which are due to be repaid within one year from the end of the reporting period. The Group is taking several measures as disclosed in note 1 to the condensed consolidated financial statements, some of which have already been implemented, to improve the financial position of the Group and after taking into account these steps, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due. The condensed consolidated financial statements do not include any adjustments that would result from a failure to implement such measures as disclosed in note 1 to the condensed consolidated financial statements.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
August 29, 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2013

	NOTES	Six months ended June 30, 2013 HK$'000 (unaudited)	2012 HK$'000 (unaudited)
Revenue	3 & 4	**700,791**	285,846
Cost of sales		**(382,887)**	(167,698)
Gross profit		**317,904**	118,148
Other income and gains	4	**14,996**	12,838
Selling expenses		**(18,385)**	(10,087)
Administrative expenses		**(54,985)**	(63,011)
Finance costs	5	**—**	—
Profit from operation before changes in fair value of investment properties and conversion option derivative		**259,530**	57,888
Changes in fair value of investment properties		**547,127**	1,207,397
Changes in fair value of conversion option derivative		**41,152**	—
Profit before tax		**847,809**	1,265,285
Income tax expense	6	**(170,487)**	(313,152)
Profit for the period attributable to owners of the Company	7	**677,322**	952,133
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**639,254**	206,278
Total comprehensive income for the period attributable to owners of the Company		**1,316,576**	1,158,411
Earnings per share			
— Basic (HK dollar)	8	**0.37**	0.53
— Diluted (HK dollar)	8	**0.32**	0.53

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2013

	NOTES	June 30, 2013 HK$'000 (unaudited)	December 31, 2012 HK$'000 (audited)
Non-current Assets			
Property, plant and equipment		**356,472**	327,644
Prepaid lease payments		**161,754**	161,652
Investment properties	10	**56,928,357**	55,281,545
		57,446,583	55,770,841
Current Assets			
Properties under development for sales		**3,641,254**	3,595,693
Properties held for sales		**511,176**	463,239
Trade and other receivables, deposits and prepayments	11	**372,080**	365,002
Tax recoverable		**—**	18,181
Pledged bank deposits		**255,459**	421,436
Bank balances and cash		**434,262**	48,771
		5,214,231	4,912,322
Current Liabilities			
Deposits received on sales of properties		**485,774**	1,146,923
Construction costs accruals		**500,537**	465,245
Other payables and accruals		**154,378**	154,768
Amount due to a shareholder	19(i)	**251,302**	103,559
Tax payable		**780,256**	755,907
Borrowings — due within one year	12	**2,552,147**	3,147,668
Fixed rate senior notes	13	**797,311**	—
		5,521,705	5,774,070
Net Current Liabilities		**(307,474)**	(861,748)
Total Assets less Current Liabilities		**57,139,109**	54,909,093
Non-current Liabilities			
Borrowings — due after one year	12	**1,913,556**	577,181
Fixed rate senior notes	13	**—**	795,529
Convertible note	14	**295,566**	270,323
Conversion option derivative	14	**203,692**	244,844
Deferred tax liabilities		**11,971,759**	11,655,603
Loan from a shareholder	19(ii)	**1,056,000**	1,056,000
		15,440,573	14,599,480
Net Assets		**41,698,536**	40,309,613
Capital and Reserves			
Share capital	15	**180,907**	180,907
Share premium and reserves		**41,517,629**	40,128,706
Total Equity		**41,698,536**	40,309,613

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2013

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Revaluation reserve HK$'000	Special reserve HK$'000 (Note a)	Other reserve HK$'000 (Note b)	General reserve HK$'000 (Note c)	Shareholder's contribution reserve HK$'000 (Note d)	Share option reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At January 1, 2012 (audited)	180,907	1,378,443	6,410	778,662	2,455,562	53,015	—	7,567	4,773,460	28,100,742	37,734,768
Profit for the period	—	—	—	—	—	—	—	—	—	952,133	952,133
Other comprehensive income for the period	—	—	—	—	—	—	—	—	206,278	—	206,278
Total comprehensive income for the period	—	—	—	—	—	—	—	—	206,278	952,133	1,158,411
Recognition of share-based payment	—	—	—	—	—	—	—	3,946	—	—	3,946
Deemed contribution	—	—	—	—	—	—	34,099	—	—	—	34,099
At June 30, 2012 (unaudited)	180,907	1,378,443	6,410	778,662	2,455,562	53,015	34,099	11,513	4,979,738	29,052,875	38,931,224
At January 1, 2013 (audited)	**180,907**	**1,378,443**	**6,410**	**778,662**	**2,455,562**	**53,015**	**161,049**	**15,503**	**5,422,581**	**29,857,481**	**40,309,613**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**677,322**	**677,322**
Other comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**639,254**	**—**	**639,254**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**639,254**	**677,322**	**1,316,576**
Recognition of share-based payment	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**347**	**—**	**—**	**347**
Deemed contribution	**—**	**—**	**—**	**—**	**—**	**—**	**72,000**	**—**	**—**	**—**	**72,000**
At June 30, 2013 (unaudited)	**180,907**	**1,378,443**	**6,410**	**778,662**	**2,455,562**	**53,015**	**233,049**	**15,850**	**6,061,835**	**30,534,803**	**41,698,536**

Notes:

(a) Special reserve represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the corporate reorganization ("Corporate Reorganization") to rationalize the Group structure prior to the listing of the Company's share on The Stock Exchange of Hong Kong Limited.

(b) Other reserve arose from the acquisition by Mr. Wong Sai Chung ("Mr. Wong"), the ultimate controlling shareholder of the Company, of the interests in the Company's subsidiaries owned by other shareholders and the implementation of the Corporation Reorganization.

(c) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the subsidiaries established in the PRC may make an allocation to the general reserve from its profit for the year (prepared under the generally accepted accounting principles in the PRC) at a rate determined by directors of the relevant subsidiaries. The general reserve can only be used upon approval by the board of directors of the relevant subsidiaries to offset accumulated losses or increase capital.

(d) Shareholder's contribution reserve represents the deemed contribution arising from loans from shareholder, Mr. Wong.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2013

	Six months ended June 30,	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	**(304,922)**	(292,344)
Net cash from (used in) investing activities		
Purchase of property, plant and equipment	**(1,683)**	(5,919)
Additions to investment properties	**(83,210)**	(34,569)
Proceeds received from disposal of investment properties	**33,455**	—
Withdrawal of pledged bank deposits	**167,347**	1,268
Placement of pledged bank deposits	**(1,003)**	(186,552)
Interest received	**1,692**	1,066
	116,598	(224,706)
Net cash from (used in) financing activities		
New borrowings raised	**3,025,401**	221,675
Repayment of borrowings	**(2,329,970)**	(65,148)
Advance from a shareholder	**116,750**	—
Repayment to a shareholder	**—**	(435,837)
Interest paid	**(212,509)**	(142,904)
Loan raised expenses	**(28,469)**	—
	571,203	(422,214)
Net increase (decrease) in cash and cash equivalents	**382,879**	(939,264)
Cash and cash equivalents at beginning of the period	**48,771**	1,192,134
Effect of foreign exchange rate changes	**2,612**	8,114
Cash and cash equivalents at end of the period, represented by bank balances and cash	**434,262**	260,984

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that, as of June 30, 2013, the Group's current liabilities exceeded its current assets by approximately HK$307,474,000 and the Group had other commitments contracted for but not provided in the condensed consolidated financial statements of approximately HK$930,989,000 as stated in note 17. In addition, there are borrowings and fixed rate senior notes with carrying amounts of HK$2,552,147,000 and HK$797,311,000 which are due to be repaid within one year from the end of the reporting period.

In order to improve the Group's financial position, to provide liquidity and cash flows and to sustain the Group as a going concern, the Group has implemented the following measures:

(1) The Group is planning to obtain new long term fundings and borrowings from the capital market and banks. At the date of approval of these condensed consolidated financial statements, the Group has successfully raised new other borrowings of HK$315,497,000.

(2) The Group has committed marketing plan to stimulate sales of its properties held for sales and pre-sales of properties under development for sales.

The directors of the Company consider that after taking into account the above measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	*Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition guidance*

2. PRINCIPAL ACCOUNTING POLICIES — continued

HKFRS 13	*Fair Value Measurement*
HKAS 19 (as revised in 2011)	*Employee Benefits*
HKAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*
Amendments to HKFRS 7	*Disclosures — Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 1	*Presentation of Items of Other Comprehensive Income*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2009–2011 Cycle; and*
HK(IFRIC) — INT 20	*Stripping Costs in the Production Phase of a Surface Mine*

HKFRS 13 "Fair Value Measurement"

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 20.

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

2. PRINCIPAL ACCOUNTING POLICIES — continued

Amendments to HKAS 34 "Interim Financial Reporting" (as part of the annual improvements to HKFRSs 2009–2011 cycle)

The Group has applied the amendments to HKAS 34 "Interim financial reporting" as part of the annual improvements to HKFRSs 2009–2011 cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker ("CODM") and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment. Since there has not been a significant change on the assets and liabilities of the Group's reportable segments (neither for a particular reportable segment or aggregated as a whole) comparing with the amounts disclosed in the consolidated financial statements for the year ended December 31, 2012, the Group has not included total assets and liabilities information as part of segment information.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

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

For the six months ended June 30, 2013 (unaudited)

	Property development		**Property investment**			
	Shanghai HK$'000	**Chongqing HK$'000**	**Shanghai HK$'000**	**Chongqing HK$'000**	**Others HK$'000**	**Total HK$'000**
Revenue						
External sales	**—**	**692,121**	**4,720**	**—**	**3,950**	**700,791**
Segment profit (loss)	**—**	**311,225**	**279,766**	**299,938**	**(3,131)**	**887,798**
Other income and gains						**14,996**
Unallocated expenses						**(54,985)**
Profit before tax						**847,809**

For the six months ended June 30, 2012 (unaudited)

	Property development		Property investment			
	Shanghai HK$'000	Chongqing HK$'000	Shanghai HK$'000	Chongqing HK$'000	Others HK$'000	Total HK$'000
Revenue						
External sales	—	274,703	10,105	—	1,038	285,846
Segment profit (loss)	—	103,684	1,011,129	205,204	(4,559)	1,315,458
Other income and gains						12,838
Unallocated expenses						(63,011)
Profit before tax						1,265,285

3. SEGMENT INFORMATION — continued

Segment result represents the profit earned by (loss incurred from) each segment including the changes in fair value of investment properties, changes in fair value of conversion option derivative and selling expenses without allocation of other income and gains and administrative expenses including share-based payments and directors' salaries. This is the measure reported to the CODM, the Company's Chief Executive Officer, for the purposes of resource allocation and performance assessment.

4. REVENUE AND OTHER INCOME AND GAINS

	Six months ended June 30,	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Revenue		
Sales of residential properties	**692,121**	274,703
Property rental income	**4,720**	10,105
Property management income	**3,950**	1,038
	700,791	285,846
Other income and gains		
Net exchange gain	**13,216**	8,677
Interest on bank deposits	**1,692**	1,066
Others	**88**	3,095
	14,996	12,838
Total revenue and other income and gains	**715,787**	298,684

5. FINANCE COSTS

	Six months ended June 30,	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest on other borrowings wholly repayable within five years	**101,995**	—
Interest on bank borrowings wholly repayable within five years	**102,469**	106,389
Effective interest expense on fixed rate senior notes	**38,296**	38,296
Effective interest expense on convertible note	**25,243**	—
Effective interest expense on loan from a shareholder	**72,000**	—
Total finance costs	**340,003**	144,685
Less: Amount capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales	**(340,003)**	(144,685)
	—	—

Borrowing costs capitalized during the period arose on the specific borrowings are approximately HK$140,804,000 (six months ended June 30, 2012: HK$144,685,000). Borrowing costs capitalized during the period arose on the general borrowing pool of approximately HK$199,199,000 (six months ended June 30, 2012: nil) are calculated by applying a capitalization rate of 10.12% per annum (six month ended June 30, 2012: nil) to expenditure on qualifying assets.

6. INCOME TAX EXPENSE

	Six months ended June 30,	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax:		
Enterprise income tax in the PRC	**34,689**	4,668
Land appreciation tax ("LAT") in the PRC	**—**	6,635
	34,689	11,303
Deferred tax:		
Current period	**135,798**	301,849
	170,487	313,152

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC group entities is 25% for both periods.

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

6. INCOME TAX EXPENSE — continued

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods in 2012 and 2013. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately HK$19,516,053,000 (December 31, 2012: HK$18,824,999,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

7. PROFIT FOR THE PERIOD

	Six months ended June 30,	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' emoluments	**768**	767
Other staff costs		
— Salaries and other benefits	**18,326**	14,636
— Contribution to retirement benefits schemes	**3,109**	3,025
Total staff costs	**22,203**	18,428
Less: Amount capitalized in investment properties under construction and properties under development for sales	**(8,594)**	(5,154)
	13,609	13,274
Share-based payment (included in administrative expenses)	**347**	3,946
Amortization of prepaid lease payments	**2,371**	3,541
Less: Amount capitalized in construction in progress under property, plant and equipment	**(2,343)**	(3,514)
	28	27
Depreciation of property, plant and equipment	**2,070**	2,168
Less: Amount capitalized in construction in progress under property, plant and equipment	**(855)**	(864)
	1,215	1,304
Cost of properties sold (included in cost of sales)	**375,451**	161,662
Compensation paid to purchasers to re-schedule delivery of properties	**20,458**	16,705
Gross rental income from investment properties	**(4,720)**	(10,105)
Less: Direct operating expenses incurred for investment properties that generated rental income during the period	**356**	443
	(4,364)	(9,662)

8. EARNINGS PER SHARE

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

	Six months ended June 30,	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	**677,322**	952,133
Effect of dilutive potential ordinary shares:		
— Changes in fair value of conversion option derivative	**(41,152)**	—
— Effective interest expense on convertible note (net of tax (Note))	**—**	—
Earnings for the purpose of diluted earnings per share	**636,170**	952,133

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,809,077**	1,809,077
Effect of dilutive potential ordinary shares:		
— convertible note	**206,612**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,015,689**	1,809,077

Note: Since the effective interest expense on convertible note had been capitalized in investment properties under construction and properties under development for sales, there would be no effect on the earnings for the purpose of diluted earnings per share.

The computation of diluted earnings per share for both periods did not assume the exercise of the Company's share options because the exercise price of those options outstanding was higher than the average market price for shares for both periods and all those options were lapsed on March 22, 2013.

9. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors of the Company do not recommend the payment of an interim dividend.

10. INVESTMENT PROPERTIES

	June 30, 2013 HK'000 (unaudited)	December 31, 2012 HK'000 (audited)
FAIR VALUE		
Completed properties held for rental purpose (Note a)	**3,221,442**	3,056,979
Leasehold land under and held for construction of properties for rental purpose and investment properties under construction	**49,603,174**	48,394,370
Sub-total	**52,824,616**	51,451,349
COST		
Investment properties under construction (Note b)	**4,103,741**	3,830,196
Total	**56,928,357**	55,281,545

Notes:

(a) As at June 30, 2013, included in the Group's completed properties held for rental purpose balance are properties in Shanghai, namely, Phase 1 of Shanghai Concord City with carrying amount of approximately HK$2,570,053,000 (December 31, 2012: HK$2,550,311,000); of which around 40% (December 31, 2012: 40%) is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants.

(b) The amount represents the construction costs for the building portion of certain investment properties under construction. Since the fair value of the investment properties under construction cannot be measured reliably at the end of reporting period, the amounts are carried at cost until the fair value becomes reliably measurable. The land portion is measured at fair value and grouped under leasehold land under and held for construction of properties for rental purpose and investment properties under construction.

The fair values of certain of the Group's investment properties on June 30, 2013 and December 31, 2012 were arrived at on the basis of a valuation carried out on those dates by Cushman & Wakefield Valuation Advisory Services (HK) Ltd. ("C&W") in respect of the properties situated in Shanghai and Chongqing, the PRC. C&W is an independent qualified professional valuer not connected with the Group and has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

The fair values of investment properties in Shanghai and Chongqing as at June 30, 2013 determined by C&W are approximately HK$43,798,397,000 (December 31, 2012: HK$42,882,520,000) and HK$6,212,963,000 (December 31, 2012: HK$5,798,230,000) respectively. For completed investment properties, the valuations have been arrived at using the capitalization of net income method of valuation, based on the present value of the income to be derived from the properties. For the properties which are currently vacant, the valuation was based on capitalization of the hypothetical and reasonable market rents with a typical lease term. For leasehold land under and held for construction of properties for rental purposes and investment properties under construction, the valuations have been arrived at by using residual approach by making reference to rental yield as available in the relevant market to determine the potential rental income of the completed investment properties, less estimated costs to completion and expected development profit margin. The rental income included in the residual method was principally based on income approach by taking into account the current rents passing and the reversionary income potential of tenancies.

10. INVESTMENT PROPERTIES — continued

As at June 30, 2013, the development plan on two pieces of land plot located in Chongqing has not yet been approved by the relevant government authority. As at June 30, 2013, the fair values of these two pieces of land amounted to approximately HK$2,813,256,000 (December 31, 2012: HK$2,770,599,000) is determined by the directors of the Company with reference to the recent market condition in Chongqing for land transaction.

For investment properties located in Shanghai

For the six months ended June 30, 2013, in determining the fair values of the investment properties located in Shanghai, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

i. Annual growth rate of rental income is ranging from 3% to 6% (December 31, 2012: ranging from 3% to 6%)

ii. Occupancy rate for the investment properties is ranging from 50% to 98% (December 31, 2012: ranging from 50% to 98%)

iii. Expected developer profit is ranging from 10% to 20% (December 31, 2012: ranging from 10% to 20%)

iv. Discount rate is ranging from 4% to 9% (December 31, 2012: ranging from 4% to 9%) per annum

v. Rental rate per month per square metre is ranging from HK$211 to HK$1,989 (December 31, 2012: ranging from HK$206 to HK$1,933)

For investment properties located in Chongqing

For the six months ended June 30, 2013, in determining the fair values of the investment properties located in Chongqing, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

i. Annual growth rate of rental income is ranging from 4% to 6% (December 31, 2012: ranging from 4% to 6%)

ii. Occupancy rate for the investment properties is ranging from 60% to 85% (December 31, 2012: ranging from 60% to 85%)

iii. Expected developer profit is 30% (December 31, 2012: ranging from 25% to 30%)

iv. Discount rate is ranging from 6% to 11% (December 31, 2012: ranging from 6% to 11%) per annum

v. Rental rate per month per square metre is ranging from HK$98 to HK$1,008 (December 31, 2012: ranging from HK$94 to HK$991)

All the Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model (except for those stated at cost with details set out in Note b) and are classified and accounted for as investment properties.

10. INVESTMENT PROPERTIES — continued

For investment properties located in Chongqing — continued

As at June 30, 2013, the Group obtained six (December 31, 2012: Six) out of seven (December 31, 2012: seven) State-owned Land Use Rights Certificates ("Certificates") for Chongqing projects sites. The Group is in the process of obtaining the remaining one (December 31, 2012: one). The carrying amounts of the prepaid lease payments, investment properties and properties under development for sales which relate to the remaining one (December 31, 2012: one) amounted to approximately HK$85,109,000 (December 31, 2012: HK$85,042,000), HK$3,206,475,000 (December 31, 2012: HK$3,100,663,000) and HK$313,455,000 (December 31, 2012: HK$288,238,000) respectively.

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	June 30, 2013 HK$'000 (unaudited)	December 31 2012 HK$'000 (audited)
Trade receivables (Note)	**8,459**	2,775
Prepayment of business taxes and other PRC taxes	**39,521**	84,057
Deposits and prepayments	**70,937**	76,244
Other receivables	**253,163**	201,926
	372,080	365,002

Note: The average age of these receivables is over 90 days (December 31, 2012: over 90 days).

12. BORROWINGS

	June 30, 2013 HK$'000 (unaudited)	December 31, 2012 HK$'000 (audited)
Bank borrowings	**2,067,924**	3,093,480
Other borrowings	**2,397,779**	631,369
	4,465,703	3,724,849

Bank borrowings

The interest rates of the Group's variable rate bank borrowings are based on base rate fixed by the People's Bank of China or London InterBank Offered Rates plus a premium.

The rate of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings ranges from 4.77% to 8.40% (December 31, 2012: 4.89% to 8.40%) per annum.

Other borrowings

Based on scheduled repayment dates set out in the loan agreements, fixed-rate other borrowings of approximately HK$1,198,889,000 (December 31, 2012: HK$134,228,000) are shown under current liabilities. The remaining balances of approximately HK$1,198,890,000 (December 31, 2012: HK$497,141,000) are repayable more than one year, but not exceeding two years and accordingly, shown under non-current liabilities.

The other borrowings carry at fixed interest rate. The weighted average rate is 13.36% (December 31, 2012: 20.42%) per annum.

The bank and other borrowings outstanding as of June 30, 2013 were secured by the following:

- property, plant and equipment with a net carrying value of approximately HK$177,056,000 (December 31, 2012: HK$170,061,000);
- investment properties under construction carried at cost with a carrying value of approximately HK$671,226,000 (December 31, 2012: HK$543,649,000);
- investment properties (excluding investment properties under construction carried at cost) with a carrying value of approximately HK$26,504,980,000 (December 31, 2012: HK$24,284,475,000);
- prepaid lease payments with a carrying value of approximately HK$3,282,000 (December 31, 2012: nil);
- properties under development for sales with a carrying value of approximately HK$2,364,767,000 (December 31, 2012: HK$3,297,514,000);

12. BORROWINGS — continued

Other borrowings — continued

- properties held for sales with a carrying value of approximately HK$308,532,000 (December 31, 2012: HK$302,298,000); and
- pledged bank deposits of approximately HK$255,459,000 (December 31, 2012: HK$421,436,000).

13. FIXED RATE SENIOR NOTES

On April 27, 2007, the Company issued approximately US$300 million (approximately HK$2,340,000,000) in aggregate principal amount of the fixed rate senior notes which contain two components, liability and early redemption options. During the year ended December 31, 2010, the Group repurchased fixed rate senior notes with the carrying amount of US$197,395,000 (approximately HK$1,539,681,000) at the market price.

The notes bear interest at a fixed rate of 9.125% per annum. The interest charged for the period is calculated by applying an effective interest rate of approximately 9.62% (six months ended June 30, 2012: 10.85%) per annum. Interest on the notes is payable on May 4 and November 4 of each year. The notes will mature on May 4, 2014. The notes are guaranteed by certain of the Company's subsidiaries. Details of the fixed rate senior notes are set out in the Company's annual report for the year ended December 31, 2012 dated March 29, 2013.

The directors of the Company consider that the fair values of the redemption options at the date of issuance of the notes and at June 30, 2013 and December 31, 2012 are insignificant.

14. CONVERTIBLE NOTE

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

On February 21, 2012, the Company and the Subscriber entered into a supplemental agreement to extend the maturity date and the period for conversion of the convertible note to the sixth anniversary of the issue date. Both the Company and the Subscriber have no early redemption rights on the convertible note. The Company shall repay the principal amount outstanding under the convertible note to the Subscriber together with all interest accrued on the sixth anniversary of the date of issue of the convertible note.

The issuance of the convertible note has been approved at the extraordinary general meeting of the Company held on March 16, 2012. On March 19, 2012, the Listing Committee of the Stock Exchange conditionally granted the listing of and permission to deal with the conversion shares, subject to (i) approval by the Independent Shareholders of the issue of the convertible note under Rule 13.36 of the Listing Rules and (ii) fulfillment of all other conditions of the subscription agreement. In accordance with the subscription agreement, all of the conditions precedent had been fulfilled on August 14, 2012 and the issue of the convertible note had been agreed between the Company and the Subscriber to fall on August 14, 2012 with settlement against funds previously advanced by Mr. Wong to the Company.

The convertible note is denominated in Hong Kong dollars ("HK$") and contain two components, liability component and conversion option derivative. The effective interest rate of the liability component is 18.838% per annum. The conversion option derivative is measured at fair value with changes in fair value recognized in profit or loss.

The fair value of conversion option derivative was calculated using the binomial option pricing model by an independent valuer, Asset Appraisal Limited. The inputs into the model are as follows:

	At 31.12.2012	**At 30.6.2013**
Spot price (HK$)	2.44	1.93
Exercise price (HK$)	2.42	2.42
Risk-free rate	0.36%	1.15%
Discount rate	16.19%	18.10%
Volatility	30.319%	44.271%
Dividend yield	0%	0%

Note: Pursuant to the subscription agreement and the supplemental agreement, conversion option may be exercised at any time after full repayment of the loan principal and all outstanding accrued interest under the facility agreement to China Development Bank Corporation, Hong Kong Branch or the date falling 36 months from the first date a loan was made under the facility agreement (whichever is earlier). The Subscriber will have the right to convert the whole or part of the principal amount of the convertible note into shares at any time and from time to time up to the sixth anniversary of the date of inception of the convertible note. Management assumes that the conversion period would be started on December 14, 2013, as full repayment of the loan principal and all outstanding accrued interest would be due and settled on that date.

14. CONVERTIBLE NOTE — continued

Expected volatility of the convertible note conversion option derivative was determined using the historical volatility of the price return of the ordinary shares of comparable companies. Because the binominal option pricing model requires the input of subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The movement of the different components of the convertible note for the period is set out as below:

	Liabilities HK$'000	Conversion option derivative HK$'000	Total HK$'000
Carrying amount at date of issue	228,700	271,300	500,000
Interest charged	41,623	—	41,623
Gain arising on changes in fair value	—	(26,456)	(26,456)
As at December 31, 2012	270,323	244,844	515,167
Interest charged	25,243	—	25,243
Gain arising on changes in fair value	—	(41,152)	(41,152)
As at June 30, 2013	295,566	203,692	499,258

15. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.1 each		
Authorized:		
At January 1, 2012, June 30, 2012, December 31, 2012, January 1, 2013 and June 30, 2013	5,000,000,000	500,000
Issued and fully paid:		
At January 1, 2012, June 30, 2012, December 31, 2012, January 1, 2013 and June 30, 2013	1,809,077,000	180,907

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

16. CONTINGENT LIABILITIES

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

Guarantee

	June 30, 2013 HK$'000 (unaudited)	December 31, 2012 HK$'000 (audited)
Guarantees given to banks in connection with credit facilities granted to the purchasers of the Group's properties (Note)	**1,647,692**	1,386,417

Note: The guarantees were given to banks with respect to loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the delivery of the properties to the purchasers and completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. In the opinion of the directors, the fair value of the financial guarantee contracts is not significant. Deposits received on sales of properties prior to the date of revenue recognition are classified as current liabilities in the condensed consolidated statement of financial position.

Legal disputes

As at June 30, 2013, the Group is subjected to several legal claims with aggregate amount of approximately HK$378,000,000 (unaudited) (December 31, 2012: HK$360,000,000) in relation to disputes under construction contracts in the properties development operation during the normal course of business. In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that not met the required standards and pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or in the process of making counter claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group. The net financial effect of both claims and counter-claims is considered insignificant.

Based on the advices from the independent legal advisors, those outstanding legal claims are still in preliminary stage and the final outcome is unable to be determined at this stage. Accordingly no provision is required to be made in the condensed consolidated financial statements. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

17. OTHER COMMITMENTS

	June 30, 2013 HK$'000 (unaudited)	December 31, 2012 HK$'000 (audited)
Construction commitment contracted for but not provided	**930,989**	1,028,517

18. OPERATING LEASE COMMITMENTS

As lessor

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

	June 30, 2013 HK$'000 (unaudited)	December 31, 2012 HK$'000 (audited)
Within one year	**1,102**	5,386
In the second to fifth year inclusive	**1,140**	1,599
	2,242	6,985

Around 40% (December 31, 2012: 40%) of the Group's investment properties in Shanghai, namely, Phase 1 of Shanghai Concord City is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants. For the Group's marketing strategy, upon the completion Phase 2 of Shanghai Concord City ("Phase 2 North Portion"), the Group will then recruit their target tenants for both Phase 1 of Shanghai Concord City and Phase 2 North Portion. The construction of Phase 2 North Portion is anticipated to be completed in the second half of 2013. The properties generated annual rental yields of average 0.30% (December 31, 2012: 0.60%) for the six months ended June 30, 2013. Leased properties have committed tenants from one to three (December 31, 2012: one to four) years.

As lessee

Minimum lease payments paid under operating leases during the period:

	Six months ended June 30,	
	2013 HK$'000 (unaudited)	2012 HK$'000 (unaudited)
Premises	**1,570**	2,141

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

	June 30, 2013 HK$'000 (unaudited)	December 31, 2012 HK$'000 (audited)
Within one year	**4,643**	4,441
In the second to fifth year inclusive	**343**	2,399
	4,986	6,840

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and are fixed for an average of three (December 31, 2012: three) years.

19. RELATED PARTY TRANSACTIONS

(i) Amount due to a shareholder

Amount due to a shareholder, Mr. Wong, is non-trade in nature, unsecured, interest-free and repayable on demand.

(ii) Loan from a shareholder

Pursuant to an agreement entered between Mr. Wong and the Company on December 31, 2012, the loans were interest free, unsecured and repayable after one year from December 31, 2012. The fair value of loans was determined based on the effective interest rate of 12.00% per annum at initial recognition. The difference between the carrying amount of the loans and the fair value of loans determined on December 31, 2012 amounted to approximately HK$126,950,000, which had been credited to equity as deemed contribution from a shareholder.

During the period, an agreement was entered with Mr. Wong to extend the loans duration and the loan will be repayable after eighteenth months from December 31, 2012. The difference between the carrying amount of the loans and the fair value at the agreement date (determined based on the effective interest rate of 12.00% per annum) amounted to approximately HK$72,000,000 which had been credited to equity as deemed contribution from a shareholder.

During the six months ended June 30, 2013, effective interest expense of approximately HK$72,000,000 (six months ended June 30, 2012: nil) is capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales.

(iii) Other transactions

During the six months ended June 30, 2013, the Group had the following transactions with Pacific Concord Holding Limited ("PCH"), a company in which Mr. Wong has controlling interests, and its subsidiary as follows:

	Six months ended June 30,	
Nature of transactions	**2013**	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Office premises expenses (Note)	**18**	18

19. RELATED PARTY TRANSACTIONS — continued

(iii) Other transactions — continued

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

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

(iv) Compensation of key management personnel

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

	Six months ended June 30,	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Short term benefits	**768**	767

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

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Certain Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS — continued

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis — continued

Financial liabilities	Fair value as at June 30, 2013	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Conversion option derivative	Liability: HK$203,700,000	Level 3	Binominal option pricing model The fair value is estimated based on risk-free rate, discount rate and share price (from observable market date), volatility of the share price of the Company and dividend yield and exercise price	N/A	N/A

There is no transfer between different levels of the fair value hierarchy for the period ended June 30, 2013 and 2012.

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

Reconciliation of Level 3 fair value measurements of conversion option derivative

	HK$'000
At January 1, 2013	244,844
Fair value gain recognized in profit or loss (Note)	(41,152)
At June 30, 2013	203,692

Note: The gain for the period of HK41,152,000 relates to conversion option derivative held at the end of the current reporting period.

Fair value measurements and valuation processes

The Group engages qualified external valuers to perform valuations for financial instruments. The accounting officer reports the findings of the valuation prepared by the qualified external valuers to the board of directors of the Group every half year and explain the cause of fluctuations in the fair value of the financial instruments.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

21. EVENT AFTER THE REPORTING PERIOD

On July 3, 2013, the Company granted share options (the "Share Options") to the consultants of the Company (the "Grantees") pursuant to the Company's share option scheme adopted by the Company on February 2, 2007, subject to acceptance by the Grantees. The Share Options entitle the Grantees to subscribe for a total of 36,000,000 share options at an exercise price of HK$1.93 per share, and each option shall entitle the holder to subscribe for one share. The Share Options are granted with the two years option life from July 3, 2013 to July 2, 2015, and the share options under the scheme are subject to 50% of the share options will be vested if the relevant Grantees have fulfilled the conditions precedent of vesting and the remaining 50% will vest one calendar year thereafter. As at the date of this report, the directors of the Company are in the process of estimating the fair value of the Share Options granted.