China Properties Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1838

Annual Report 2013

power vision

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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

Codan Trust Company (Cayman) Limited
Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1–1111,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
China Development Bank Corporation
China Minsheng Bank
Industrial and Commercial Bank of China

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPANY'S WEBSITE

cpg-group.com

CHAIRMAN'S STATEMENT

The Mainland is currently undergoing an impetuous experiment. Though aiming at strengthening administration, its impact on the mainland economy is beyond measure by any model of any political and economic scientists. However, barring any material miscalculation or impact therefrom, Western theorists predict the mainland economy is heading for hard landing, which will certainly spoil potential opportunities of many investors. The prediction is based on the followings: the economic dynamics between the United States, a long-time spender, and China, who has been growing out of export, are now disintegrating — the United States is now too deeply indebted while the mainland economy relies unduly on export. To reform the aforementioned worn-out economic development models, the United States is reining in its debt while the economic engine of China is shifting from export to domestic consumption. In the process of such drastic reforms, Western economists worry not about the amount of local debt and shadow banking, which were much smaller than those of the United Kingdom or the United States. What would be the most alarming is in fact the collapse of the real estate market. Yet, the PRC government will carry on its policies in order to stabilize the society as it is confident that it still has the real estate market under control. To capitalize on these circumstances, the Group will strive to dispose of its properties as quick as possible and obtain the cash required to seize any promising investment opportunity arising amid the inevitable market fluctuation. In order to generate more revenue for the Group and create shareholders' value, the Group is studying how to utilize mobile internet technologies at our invaluable world class commercial streets in China, namely the approximately 1km long commercial streets at Nanjing Road in Shanghai, Jiefangbei in Chongqing, Chongqing Global Twin Towers and Xidan in Beijing (of which the Group has an option to acquire 50% interest), which fuse shopping streets, entertainment hubs, hotels and office that houses real-economy's activities.

Dr. Wang Shih Chang, George
Chairman

Hong Kong, March 27, 2014

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Group Strategies

2013 is a challenging year. Looking ahead, the Group would continue to master property development projects, both residential and commercial, with sizable and distinct quality, in prime locations in the People's Republic of China ("PRC"). Our overall objectives are to exploit business opportunities, achieve sales growth, and enhance income as planned.

Key property development projects are as follows:

- *High-end and sizable middle-class residential projects*

  There are both high-end residential and well-located projects for the growing middle-class in both Shanghai and Chongqing. Luxurious design and leading residential projects, characterized by themes and motifs, are connected with mass transit system with rapid, convenient and efficient transportation.

- *Modern and upscale theme shopping street developments*

  These are modern, well-designed architectural projects situated at prime retail areas in major cities in the PRC which combines retail, residential, entertainment, cultural and recreational users with great accessibility, a focal point with attractions for residential, investment and business operations.

BUSINESS ENVIRONMENT

Overview of the Mainland Property Market

China's economic growth was stable towards the end of 2013. The GDP growth for 2013 was 7.7% as compared to 7.8% in 2012.

Residential property prices in China grew at rather sharp rate in 2013. According to the National Bureau of Statistics of China, new-home prices grew 20% in Guangzhou and Shenzhen in 2013 and 18% in Shanghai and 16% in Beijing for the same period. Even with imposed nationwide measure by the government to cool the market in March, major cities had also imposed additional measures, such as raised minimum down payments for second homes in November to slow down the price growth rate further. Initial statistics in December 2013 saw a slight easing of price growth rate, resulting from the effect of the additional policies.

By the end of 2013, the total retail sales of China grew 13.1% to RMB23.44 trillion, with urban consumption up by 12.9% and rural residents spending up by 14.6% in 2013. Demand for retail space in most cities remains strong with key cities in prime areas registered steady rental growth rate. Global F&B and fashion retailers continue to increase their presence in China by taking up more stores in Tier 2 and Tier 3 cities.

The main theme for the office market in China was dominated by strong supply situation, with over 1.7 million square metres of new completion in 2013. A large portion is located in Western China of Chongqing and Chengdu and in North China. Those two regions saw rental rates weakened for 2013. In Eastern China, other than Shanghai, rental rates held steady or slightly increased for selected Tier 2 cities as demand remained strong. The Shenzhen market saw an increase in vacancy rate and rental rate decline due to the diminishing impact of preferential policies and the peak period of small- to medium-sized leases expiry. Main drivers for demand are from finance, real estates, and energy and resources companies. With domestic financial institutions were increasingly active in both office leasing and sales market.

Overview of the Shanghai's Property Market

Total GDP of Shanghai grew by 7.7% year-on-year to RMB216.02 billion by the end of 2013, as compared to RMB201.0 billion in 2012.

Following the announcement of the "Five New Measures" in March, in the second quarter of 2013, Shanghai's private residential sales volume dropped slightly yet price continued to move up with more first-time home buyers and buyers who wanted to upgrade their premises supported the market during the quarter. This trend continued in the third quarter with developers and home sellers' reluctance to offer discounts and price cut due to strong market sentiment. As the home prices continued to escalate, the local government introduced the "Seven Articles" in November which targeted second home mortgages and raised the requirements of non-local home buyers. However, the introduction of this policy had limited impact on the residential property market with both price and sales volume continued to rise in the fourth quarter.

Demand for Shanghai prime retail properties continued to remain strong as several luxury and high-end brands as well as new brands continued their expansion. Although there had been a significant amount of new supply, strong demand had continued to drive overall vacancy rate down at Shanghai's mid to high-end shopping centre during the year. Due to high rents in the mid-to high-end shopping malls, there had been a demand for retailers to move their shop space to street-front retail space. Rental rates remained flat in the first and second quarter of 2013, with the drop in third quarter and increase in fourth quarter, the rental level remained static for the whole year.

The average rents of Grade A office in the Shanghai CBDs remain static in the first and second quarters of 2013 due to the entering of recent completed projects and the anticipation of future newly completed offices. Rental rose slightly in the third quarter with Pudong area registered an increase faster than Puxi area. The average Grade A office rent in the CBD area leveled off to flat in the end of the fourth quarter of 2013. This was due to the cautious sentiment from the landlord, in view of the upcoming supply and competition from the other decentralized business districts.

Overview of the Chongqing's Property Market

Chongqing's real GDP grew by 12.3% year-on-year to RMB1,265.67 billion by the end of 2013 as compared to RMB1,145.90 billion in 2012.

Chongqing's residential property market showed a mild growth in the number of sale transactions recorded in the 4th quarter of 2013 as compared to the 3rd quarter of 2013, the average price of apartments transacted was increased marginally by 1% in the 4th quarter of 2013 to approximately RMB7,155. In view of this, the residential property market is expected to grow at a steady pace.

Prime retail rents continued to increase slightly by 0.3% quarter-on-quarter in the 4th quarter 2013. The average vacancy rate fell to 4.6% whereas prime retail vacancy rate fell to 5.7%. New supply during the 4th quarter of 2013 includes Ruifu Outlets in Jiefangbei CBD area, while emerging areas new supply include Sunshineway Mall in Ba'nan District and Yingli International Plaza in Yuzhong District. Although with the new supply, Paradise Walk (West) and CapitaMall Jiulongpo were almost fully occupied.

The office property market growth was moderate by end of 2013, despite the new supply driving up vacancy rate. Average Grade A office rents rose slightly to 2.7% quarter-on-quarter in the 4th quarter of 2013 due to companies' expansions and relocations. City-wide Grade A vacancy rate rose to 34.6% quarter-on-quarter in the 4th quarter of 2013, whereas in non-prime regions such as Nan'an District, vacancy rate fell by 33.6%. The latter decrease in vacancy rate was supported by small and medium companies in the trade, finance and services industries. Demand for office space located in the prime areas such as Jiefangbei CBD and Jiangbeizui CBD is expected to remain stagnant with new round of supply expecting to enter into the market in 2014.

Outlook of the Mainland Property Market

After the announcement of The "Five New Measures" launched in the 1st quarter of 2013 and the "Seven Articles" launched in November, local governments will still continue to address the rising home prices in 2014, in particular to curb the pre-sales of high-end residential projects and increase in land for low- to mid-end projects. However, the sustained strong demand and limited supply of land in Tier 1 cities is likely to put upward pressure on cities like Beijing and Shanghai. In contrast, price growth will become more moderate in Tier 2 and 3 cities due to abundant supply.

In the retail market, performance of shopping malls between landlords will be uneven with some malls in core city areas may perform better and in high demand from international brands yet some landlords may require to do a complete overhaul in retail concept in order to compete in this challenging and overcrowded market. New supply of retail spaces is expected to remain high in 2014, most of it coming from Tier 2 cities. More cases of operation failure and repositioning are expected, while increasing pressure on rental performance will continue.

It is anticipated that office space downsizing or decentralization in the traditional manufacturing sectors will be impacted after the China's Central Economic Work Conference had put a focus on economic restructuring. Shanghai and Shenzhen are expected to see substantial new supply in the Tier 1 cities whereas Tier 2 cities such as Chengdu are expected to see another peak in 2014. However, with the constant urbanization and the promotion of growth industries by the government, it is anticipated that overall office market will remain positive in the long run in Shanghai whereas Tier 2 cities where most of the supply would come from are likely to face tougher competition.

FINANCIAL REVIEW

The Group's profit attributable to equity holders for the year amounted to HK$1,132 million (2012: HK$1,757 million), decreased by 35.6% when compared to 2012. Profit before tax, excluding changes in fair value of investment properties and conversion option derivative, amounted to HK$353 million (2012: HK$183 million), an increase of 92.9% when compared with last year.

Basic earnings per share were HK$0.63 (2012: HK$0.97), a decrease of 35.1%, largely in line with the drop in rate of investment property appreciation by 49.7%.

As at December 31, 2013, the total assets increased to HK$64,712 million from HK$60,683 million in last year, as the Group continues its investment in premium property developments with attendant appreciation in fair values, albeit at a rate lower than last year. Net assets, the equivalent of shareholders' funds, similarly continued to grow to HK$42,732 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$23.62 at the end of the reporting period, as compared to HK$22.28 as at December 31, 2012.

The Group's revenue of HK$1,045 million (2012: HK$693 million) increased by 50.8% when compared with last year, and was mainly due to the increase in revenue from sales of development properties.

The revenue from sales of development properties amounted to HK$1,031 million (2012: HK$674 million), increased by 53.0% as compared to 2012. The Group sold with a gross floor area ("GFA") of approximately 2,071,000 sq. ft. in 2013 (2012: 1.439.000 sq. ft), a 43.9% increase as compared with last year.

Gross profit margin for sales of development properties was 42.9% (2012: 38.1%). The increase was due to current year's sale of 2,071,000 sq. ft. of Chongqing Manhattan City Phase I and Phase II while in 2012, sales were mainly generated from Chongqing Manhattan City Phase I, which had a lower gross profit margin than that of Chongqing Manhattan City Phase II.

Income from property leasing decreased by 56.3% to HK$7 million (2012: HK$16 million). The decrease was attributable to the termination of certain tenancies for the future upgrade construction of the mall development. Property management income was HK$8 million (2012: HK$3 million).

During the year, the Group generated income of HK$73 million and HK$958 million from sales of residential properties of Chongqing Manhattan City Phase I and Phase II respectively. Deposits received on sales of properties decreased to HK$281 million as at December 31, 2013 from HK$1,147 million as at December 31, 2012 due to the release of deposits to revenue upon delivery of Chongqing Manhattan City Phase I and II.

Other income and gains were HK$78 million (2012: HK$54 million), a rise of 44.4%. It mainly comprised gain from disposal of investment properties of HK$42 million (2012: HK$36 million), net exchange gain of HK$26 million (2012: HK$11 million) and interest from bank deposits of HK$9 million (2012: HK$3 million).

During the year, selling expenses were HK$42 million (2012: HK$34 million), increased by 23.5%. The increase in advertising and promotion expenses was generally in line with the increase in revenue of the Group.

Administrative expenses during the year were HK$127 million (2012: HK$99 million) which increased by 28.3% when compared to 2012. The increase was mainly attributed to the increase in compensation paid to purchasers to re-schedule delivery of properties during the year.

Finance costs represent mainly interest expenses and other borrowing costs in relation to bank and other borrowings, effective interest of convertible note, deemed interest of shareholder loan and the fixed rate senior notes (the "Note") issued in April 2007 and October 2013. Since all finance costs equivalent to HK$782 million (2012: HK$396 million) were wholly capitalized on various projects, finance costs charged to the profit or loss were nil (2012: Nil).

The changes in fair value of investment properties were HK$1,052 million (2012: HK$2,090 million), a drop of 49.7%. 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 year 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 2013 is still appreciating but at slower pace as compared to last year. The changes in fair value of investment properties in Shanghai experienced an increase of HK$913 million (2012: HK$1,781 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$139 million (2012: HK$309 million).

Income tax expense was HK$337 million (2012: HK$542 million), a decrease of 37.8%. The Group's effective income tax rate was 22.9% (2012: 23.6%). The significant decrease in income tax expenses was brought by the changes in fair value of investment properties for 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 year, the Group raised new external borrowings totaling of approximately HK$4,610 million (2012: HK$1,011 million); on the other hand, the Group made net repayment to a shareholder of HK$382 million (2012: net repayment to a shareholder of HK$39 million).

At the end of the reporting period, the Group's senior notes, bank and other borrowings, amount due to/loan from a shareholder and convertible note amounted to HK$2,765 million, HK$3,743 million, HK$891 million and HK$324 million respectively, and the Group's total borrowings were HK$7,723 million, an increase of HK$1,773 million when compared to December 31, 2012. HK$3,149 million is repayable within one year whilst the remaining is repayable in the second to sixth year inclusive.

The gearing ratio of the Group as at December 31, 2013 was 16.1% (2012: 13.6%), determined as proportion of the Group's net borrowings (after deducting bank balances and cash and pledged bank deposits) to the shareholders' funds.

With bank balances and cash in hand, banking facilities available and those financing plans, 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 year.

TREASURY POLICIES

At the end of the reporting period, approximately 40.0% of the Group's borrowings were in RMB with the balance in HK$ and US$. The Group derives its revenue mainly in RMB. Bank balances are maintained mainly in HK$, US$ and RMB.

The bank borrowings are principally on a floating rate basis while the other borrowings and senior notes 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 consolidated financial statements and convenience of the financial statements users, the results and financial position of the Group are expressed in Hong Kong dollars, the presentation currency for the 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 year, the Group has complied with all borrowings covenants.

CHARGE ON ASSETS

As at December 31, 2013, the Group pledged assets with an aggregate carrying value of HK$31,233 million (2012: HK$29,019 million) to secure loan facilities utilized.

CONTINGENT LIABILITIES

As at December 31, 2013, the Group guaranteed mortgage loans to purchasers of its properties in the aggregate outstanding principal amount of HK$1,655 million (2012: HK$1,386 million). During the year, there was no default case.

Legal disputes

As at December 31, 2013, the Group is subjected to several legal claims with an aggregate amount of approximately HK$124 million (2012: HK$360 million) in relation to disputes under construction contracts in the properties development operation during the normal course of business. In these legal proceedings, the Group has received court orders to restrict the disposition of certain properties under development for sales and properties held for sale in an aggregate amount of approximately HK$153 million and the withdrawal of bank deposits of approximately HK$3 million as at December 31, 2013. 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 that are still in preliminary stage and hence the final outcome is unable to be determined at this stage. Accordingly, no provision is required to be made in the 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.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2013, the Group had approximately 355 employees (2012: 388 employees) in Hong Kong and the PRC. The related employees' cost for the year amounted to approximately HK$44 million (2012: HK$36 million). The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis, together with reference to the profitability of the Group, remuneration benchmarks in the industry and prevailing market conditions. In addition, share options may be granted from time to time in accordance with the terms of the Group's approved share option scheme to provide incentives and rewards to the employees.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Dr. Wang Shih Chang, George, aged 80
Dr. Wang is the Chairman of our Board and has been with the Group since 1992. He is the Chairman of the nomination committee and the member of the remuneration committee of the Company. Dr. Wang is jointly responsible for the formulation of the overall corporate direction and business strategies for the Group with the Managing Director. Dr. Wang has extensive experience in property development and management in the PRC. Prior to joining the Group, Dr. Wang served as a vice president of various companies owned by or associated with Bechtel Group, Inc. from 1962 to 1984 and Fluor Corporation from 1984 to 1986. Bechtel and Fluor are construction and project management companies in the United States of America. Dr. Wang has many years of experience in the operation and management of global conglomerates. He obtained a Master Degree in Civil Engineering and Nuclear Engineering from the University of Michigan and a Ph.D. Degree in Engineering from the University of California, Los Angeles. He is the brother of Mr. Wong Sai Chung, the Managing Director of the Company. Dr. Wang also serves as a director of U.S. Concord (Holding) Limited and Pacific Concord Holding Limited ("PCH") (de-listed).

Wong Sai Chung (汪世忠), aged 64
Mr. Wong is the Managing Director of the Company, and has been with the Group since 1992. Mr. Wong is jointly responsible for the formulation of the overall corporate direction and business strategies for the Group with the Chairman, and has overall responsibility for the Group's policy and management. Mr. Wong has over 20 years of experience in property development and management in the PRC, and has extensive experience in identifying and acquiring precious sizable lands and developing the land into highly marketable properties in top-tier cities in the PRC. Throughout the years, Mr. Wong has established strong and solid connections and contacts in the property industry in the PRC. Mr. Wong founded the PCH Group in March 1982 and has served as the Chairman of PCH Group since its establishment. He is the brother of Dr. Wang Shih Chang, George, the Chairman of the Board. Mr. Wong also serves as a director of U.S. Concord (Holding) Limited and PCH (de-listed). In 1996, he was appointed as the executive director of Concord Land Development Company Limited (de-listed).

Xu Li Chang (徐禮昌), aged 74
Mr. Xu is an Executive Director of the Company. Mr. Xu has been responsible for the project management since joining the Group in September 1998. He pursued his studies at the University of Chongqing (重慶大學) (formerly The Chongqing Institute of Civil Engineering and Architecture) (重慶建築工程學院) and qualified as a senior engineer in the PRC. Mr. Xu was appointed the officer-in-charge of the Neijiang City Municipal Foreign Economic and Technological Co-operation Office in the PRC in 1987. Mr. Xu also worked as the vice general manager at a well-known property development company in 1997 and was responsible for the overall management of the construction projects of that company.

Non-executive Director

Kwan Kai Cheong (關啟昌), aged 64

Mr. Kwan is a Non-executive Director of the Company and has joined the Group for more than ten years. Mr. Kwan served in various positions with Merrill Lynch & Co. Inc. from 1982 to 1993, including as president of the Asia-Pacific Region. Mr. Kwan is currently the president of Morrison & Company Limited, a business consultancy firm; an independent non-executive director of Hutchison Harbour Ring Limited, SPG Land (Holdings) Limited, Goldpoly New Energy Holdings Limited and Win Hanverky Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange. He is an independent non-executive director of Henderson Sunlight Asset Management Limited, which manages the Sunlight Real Estate Investment Trust, and the units are listed on the Main Board of the Stock Exchange. He is also a non-executive director of Galaxy Resources Limited which is listed in the Australian Securities Exchange.

Mr. Kwan holds a Bachelor Degree of Accountancy (Honours) from the University of Singapore. He is a member of the Institute of Chartered Accountants in Australia and a Fellow of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Directors. Mr. Kwan completed the Stanford Executive Program in 1992.

Independent Non-executive Directors

Warren Talbot Beckwith, aged 74

Mr. Beckwith was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the Chairman of the audit committee and the member of the nomination committee of the Company. Mr. Beckwith has business management experience in Australia, London and Hong Kong in various industries, including mining, petroleum, property and technology development. Mr. Beckwith is a Fellow of the Institute of Chartered Accountants in Australia, the Hong Kong Institute of Certified Public Accountants, the Australian Institute of Company Directors and the Taxation Institute of Australia. In the past, Mr. Beckwith held directorships and executive positions in public companies listed on stock exchanges in Australia and Hong Kong. Mr. Beckwith formerly served as an independent non-executive director on each of the boards of the then listed Pacific Concord Holding Limited and Concord Land Development Company Limited, both property development companies. Mr. Beckwith was a director and shareholder of Avon Real Estate Pty Ltd., a property development company, and he was also a director of Sentinel Investments Pty Ltd, an Australian-based property development company. He is currently the chairman of Westralian Group Pty Ltd., a Western Australian investment company and corporate financial advisor, is a non-executive director of Brockman Mining Limited, a mining company listed in Hong Kong and Australia, and is non-executive chairman of Gondwana Resources Limited, an Australian-listed mining company.

Luk Koon Hoo (陸觀豪), aged 62
Mr. Luk was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the member of the audit committee and the remuneration committee of the Company. Mr. Luk is a retired banker, and served Hang Seng Bank Limited from 1975 as a trainee officer and as a director and deputy chief executive in 1994. He was re-designated as managing director in 1996 and retired from Hang Seng Bank Limited in May 2005. Mr. Luk is currently an independent non-executive director of Computime Group Limited, Hung Hing Printing Group Limited and i-Cable Communications Limited, shares of which are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Wheelock Properties Limited and Octopus Holdings Limited, an non-executive director of Wharf T & T Limited and AXA General Insurance Hong Kong Limited. In public duties, Mr. Luk serves as a council member and treasurer of the Chinese University of Hong Kong, a member of Town Planning Board, a member of Witness Protection Review Board Panel and a non-official member of the Operations Review Committee of ICAC. Mr. Luk was born and educated in Hong Kong. He holds a Bachelor of Social Sciences Degree in Statistics from the University of Hong Kong and a Master Degree in Business Administration from the Chinese University of Hong Kong. He is a Fellow of the Hong Kong Institute of Bankers and the Hong Kong Institute of Directors. Mr. Luk is a Non-official Justice of the Peace.

Garry Alides Willinge, aged 64
Mr. Willinge was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is a member of the audit committee and Chairman of the remuneration committee of the Company.

Mr. Willinge is a Fellow of the Australian Institute of Company Directors and the Hong Kong Institute of Directors. He graduated with a Bachelor Degree in Science from the University of Melbourne and then attained a Graduate Diploma in Applied Finance and Investment from the Securities Institute Education in Australia (known as "The Securities Institute of Australia") in 1995 and a Graduate Diploma Company Director from the University of New England in 1992. He also attended the INSEAD Asia International Executive Programme in 2004.

Mr. Willinge had served as director, Global Services, of IBM China/Hong Kong Limited until January 2005. He previously held management positions in a number of IBM Asia Pacific and European business units, including director of New Business Ventures of the Asia Pacific, where he was responsible for forging alliances and joint ventures across Asia in order to expand IBM's services business portfolio. Mr. Willinge was a director, Information Technology, for the Sydney Olympic Games 2000.

He also serves as an Adjunct Professor of Business Studies at Curtin University in Australia. He was assigned to the West Australian Premier in 1990, where he led the Office of Public Sector Management, which focused on leading public sector reform and developing CEO leadership within the sector.

Cheng Chaun Kwan, Michael (鄭燦焜), aged 83
Mr. Cheng was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the member of the audit committee and the nomination committee of the Company. Mr. Cheng is a retired property investment and development, corporate finance and accounting consultant. Mr. Cheng was the executive director of Sino Land Company Ltd., a company of which shares are listed on the Main Board of the Hong Kong Stock Exchange in 1987 and retired as director at the end of 1998. Prior to that, Mr. Cheng was the executive director of Henderson Investment Ltd., (formerly Wing Tai Development Co. Ltd.), a company of which shares are also listed on the Main Board of the Hong Kong Stock Exchange, for the period from 1981 to 1987. Mr. Cheng was the chief executive responsible for the listing of Sino Hotels (Holdings) Limited in 1995 on the Main Board of the Hong Kong Stock Exchange. Mr. Cheng is a Fellow of the Association of Chartered Certified Accountants in the U.K.

Wu Zhi Gao (吳志高), aged 69
Mr. Wu was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the member of the audit committee of the Company. Mr. Wu is a retired lecturer and property development consultant. He holds a Bachelor Degree in Mathematics from Fudan University, Shanghai. Prior to joining the Group, he held senior academic positions at the Huadong University (華東師範大學) and Shanghai Education Institute (上海教育學院) and focused on teaching marketing, which included researches on sales and marketing of property development projects. Between 1998 to 2004, Mr. Wu served as the vice principal at the Huadong University. During that period, he also assisted in the development of a residential property project for the Huadong University. For the period from 1996 to 1997, Mr. Wu also served as a vice president for Shanghai Pingan Xinlun Property Development Co. Ltd. (上海平安欣侖物業發展有限公司), a company providing construction, leasing and sales of office premises, as well as property management services, to the Shanghai Education Institute.

The Executive Directors of the Company are also the Senior Management of the Group.

CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") and the management of the Company are committed to a high standard of corporate governance. The Company considers such commitment is essential for the effective management, a healthy corporate culture, a successful business growth, balancing of business risk and enhancing of shareholders' value.

CORPORATE GOVERNANCE PRACTICES

Throughout 2013 and up to the date of this report, the Company has fully complied with all code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

THE BOARD

Responsibilities

The Board assumes responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs. The management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Company. The delegated functions and work tasks are reviewed by the Board periodically.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises nine members with three executive directors, one non-executive director and five independent non-executive directors (the "INEDs"). It is the policy of the Company to compose majority of the Board by INEDs, the Board at all times meets the requirements of the Listing Rules relating to appointment of at least three INEDs with at least one INED possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

The relationship among members of the Board and the biographies of the directors were disclosed under the "Directors' and Senior Management's Profile" section of the 2013 Annual Report.

The Company has appointed a Managing Director who performs similar functions as a chief executive officer. The position of the Chairman and Managing Director are held by two different persons in order to maintain an effective segregation of duties, independence and a balanced judgment of views. The Chairman provides leadership and is responsible for effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner.

The Managing Director focuses on implementing objectives, policies and strategies approved and delegated by the Board. He has the executive responsibilities over the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

The Company has received from each INED a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all INEDs to be independent in accordance with the independence guidelines set out in the Listing Rules.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All directors (including non-executive director) of the Company are currently appointed with specific terms for 2 years commencing from February 23, 2013, which are also subject to retirement in accordance with the articles of association of the Company ("Articles"). According to the Articles, at each annual general meeting, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment of directors and assessing the independence of INEDs.

The Board reviews from time to time its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirement and regulations.

In accordance with the Articles, Mr. Xu Li Chang, Mr. Garry Alides Willinge and Mr. Wu Zhi Gao will retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company's circular contains detailed information of the directors standing for re-election.

TRAINING AND CONTINUING DEVELOPMENT OF DIRECTORS

The Chairman has assessed the development needs of the Board as a whole, with a view to build its effectiveness as a team and to assist in the development of individual skills, knowledge and expertise.

Arrangements have been made to provide each new director a comprehensive, formal and tailored induction on the first occasion of his appointment and continuing briefing and professional development when necessary.

BOARD MEETINGS

The Board aims to meet in person or by means of electronic communication, at least 4 times a year, if necessary, as well as on an ad hoc basis. The individual attendance record of each director at the meetings of the Board, Audit Committee, Remuneration Committees and Nomination Committee during the year ended December 31, 2013 is set out below.

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to all directors in advance. Notices of regular meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board paper together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep them apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the management whenever necessary.

The company secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors and members of committees for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to the current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

Upon reasonable request, the Company should provide separate independent professional advice to directors to assist them to discharge their duties in the appropriate circumstance.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affair. The Board committees of the Company are established with defined written terms of reference. The majority of the members of the Board committees are INEDs and the list of the chairman and members of each Board committees are set out under "Corporate Information" in the 2013 Annual Report.

Meeting attendance during the year ended December 31, 2013 is as follows:

Name of Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
Dr. Wang Shih Chang, George	6/6	N/A	2/2	2/2
Mr. Wong Sai Chung	5/6	N/A	N/A	N/A
Mr. Xu Li Chang	4/6	N/A	N/A	N/A
Mr. Kwan Kai Cheong	6/6	2/2	N/A	N/A
Mr. Warren Talbot Beckwith	6/6	2/2	N/A	2/2
Mr. Cheng Chaun Kwan, Michael	6/6	2/2	N/A	2/2
Mr. Luk Koon Hoo	6/6	2/2	2/2	N/A
Mr. Garry Alides Willinge	6/6	2/2	2/2	N/A
Mr. Wu Zhi Gao	6/6	2/2	N/A	N/A

The Audit Committee

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

The Company established an Audit Committee comprising 5 INEDs with written terms of reference in compliance with the requirements as set out in Appendix 14 to the Listing Rules. Mr. Warren Talbot Beckwith, who possesses a professional accounting qualification and relevant accounting experience, is the Chairman of the Audit Committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

(a) To review the Company's financial statements and report, and to consider any significant or unusual items raised by the corporate accounting department or external auditor before submission to the Board.

(b) To review the relationship with the external auditor by reference to the work performed by the auditor, the fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditor.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system (including anti-fraud) and risk management system and associated procedures.

During the year ended December 31, 2013, the Audit Committee met twice to review the financial results and reports (including continuing connected transactions), financial reporting (including cash flow forecast) and compliance procedures, to review the effectiveness based on report on the Company's internal control and risk management review and processes and the re-appointment of the external auditor. The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

The Audit Committee has not taken a different view from the Board regarding the selection and re-appointment of external auditor.

The Company's annual results and continuing connected transactions for the year ended December 31, 2013 have been reviewed by the Audit Committee.

The Remuneration Committee

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

The Company established a Remuneration Committee comprising an executive director and two INEDs with written terms of reference in compliance with the requirements as set out in Appendix 14 to the Listing Rules. Mr. Garry Willinge is the Chairman of the Remuneration Committee.

The main duties of the Remuneration Committee include the following:

(a) To make recommendation to the Board on the policy and structure for all remuneration of the directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration.

(b) To determine, review and approve the specific remuneration packages of all executive directors and make recommendations to the Board of the remuneration of non-executive directors, taking into account those factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere and desirability of performance-based remuneration.

(c) To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the year ended December 31, 2013 and up to the date of this report, the Remuneration Committee met on March 18, 2013 and August 29, 2013 to review the remuneration package of directors and senior management (including granting of share options and bonus to employees and reviewing service contract of each director).

The remuneration of the directors for the year ended December 31, 2013 was set out in note 12 to the consolidated financial statements.

The Nomination Committee

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

The Company established a Nomination Committee comprising an executive director and two INEDs with written terms of reference in compliance with the requirements as set out in Appendix 14 to the Listing Rules. Dr. Wang Shih Chang, George is the Chairman of the Nomination Committee.

The main duties of the Nomination Committee include the following:

(a) To formulate the policy for the nomination of directors in compliance with the requirements of the Listing Rules including but not limited to the following for consideration by the Board and implement the nomination policy laid down by the Board:

(i) all directors shall be subject to re-election at regular intervals as set out in the articles of association of the Company (as amended from time to time);

(ii) the Company must comply with the disclosure requirements in relation to the appointment, resignation or removal of directors under the Listing Rules;

(iii) non-executive directors should be appointed for a specific term, subject to re-election and the term of appointment of the non-executive directors must be disclosed in the Corporate Governance Report under the Listing Rules;

(iv) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

During the year ended December 31, 2013 and up to the date of this report, the Nomination Committee met on August 29, 2013 to review the compliance for the policy for the nomination of directors.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. The obligation to follow the Listing Rules is set out in the terms of the service contracts of each executive director and the letters of appointment of the non-executive directors and each INED.

The directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards as set out in Model Code during the year ended December 31, 2013 and up to the date of this report.

INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group's internal control system includes a well defined management structure with limits of authority which is designed for the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations. In addition, the Group has exercised risk management procedures to identify and prioritize risks for the business to be addressed by management.

During the year ended December 31, 2013, the Board has conducted a review of the effectiveness of the system of internal control of the Group and is satisfied with the scope and effectiveness of the system.

The Board also carried out a review to consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and its training programmes and budget during the year ended December 31, 2013.

MANAGEMENT FUNCTION

The management team of the Company meets regularly to review and discuss with the executive directors on day-to-day operational issues, financial and operating performance as well as to monitor and ensure the management is carrying out the directions and strategies set by the Board properly.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended December 31, 2013.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on page 32 and 33.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The remuneration paid and payable to the external auditor of the Group in respect of audit services and non-audit services for the year ended December 31, 2013 are set out below:

	Year ended December 31, 2013 HK$'000
Services rendered	
— Audit services	3,437
— Non-audit services	1,618
	5,055

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The rights of shareholders are contained in the Company's Articles. Details of the poll procedures will be explained to shareholders during the proceedings of any general meetings, if necessary.

Poll results are published on the websites of the Stock Exchange and the Company before the designated time on any business day following the meeting in accordance with the Listing Rules.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmans of the Audit Committee and Remuneration Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, will be available to answer questions at the shareholders' meetings.

Any enquiries by shareholders requiring the Board's attention can be sent in writing to the company secretary at the Company's principal place of business in Hong Kong.

OTHERS

Annual Confirmation from Mr. Wong Sai Chung

The Board received a confirmation from Mr. Wong Sai Chung ("Mr. Wong") that during the year ended December 31, 2013 and up to the date of this report, Mr. Wong has complied with the non-compete undertaking as set out in the Prospectus.

New Business Opportunities

During the year ended December 31, 2013 and up to the date of this report, there have been no new business opportunities which are required to be referred to the INEDs under the deed of undertaking dated February 8, 2007 entered into between Mr. Wong and the Company.

Properties under the Beijing Concord Option and the General Option (collectively the "Options")

During the year ended December 31, 2013 and up to the date of this report, no options for the acquisition of the properties under the Beijing Concord Option and the General Option are exercised. The INEDs have considered the respective status of the Beijing Concord Option and the General Option and decided that it is not the appropriate time for the Company to exercise these options. Details of the Options are set out in the prospectus dated February 9, 2007 issued by the Company.

The Beijing Cannes Option previously granted by Mr. Wong had automatically lapsed in accordance with the terms of the Option Agreement as Mr. Wong had ceased to be interested in the Beijing Cannes site. Please refer to the Company's announcement dated February 7, 2013 for further details.

The General Option in respect of the Zhuhai Property previously granted by Mr. Wong had automatically lapsed in accordance with the terms of the Option Agreement as Mr. Wong had ceased to be interested in the Zhuhai Property. Please refer to the Company's announcement dated September 21, 2011 for further details.

First Right of Refusal for the Properties under Options

During the year ended December 31, 2013 and up to the date of this report, the Company is entitled to the first right of refusal for the properties under Options.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2013.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

The Group is principally engaged in the property development and property investment business in the People's Republic of China (the "PRC" or "China").

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 34.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the year, the Group revalued all of its investment properties at the year end date. The net increase in fair value of investment properties, which has been credited directly to the consolidated statement of profit or loss and other comprehensive income, amounted to HK$1,051,996,000.

During the year, the addition of investment properties under construction of the Group amounted to approximately HK$477,226,000.

Details of these and other movements during the year in property, plant and equipment and investment properties of the Group are set out in notes 15 and 17 to the consolidated financial statements respectively.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for each of the five years ended December 31, 2013 is set out on page 110.

PROPERTIES

Particulars of major properties held by the Group are set out on pages 111 to 112.

SHARE PREMIUM AND RESERVES

Details of the movements in the share premium and reserves of the Group for the year ended December 31, 2013 are set out in the consolidated statement of changes in equity on page 37.

SHARE CAPITAL

Details of the movements in Company's share capital during the year are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2013 were as follows:

	HK$'000
Share premium	**7,978,564**
Share option reserve	**2,947**
Accumulated losses	**(1,399,559)**
	6,581,952

Under the Companies Law of the Cayman Islands, the share premium of the Company may be distributed subject to the provisions of the Company's Memorandum or Articles of Association and provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

DIRECTORS

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

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

Each of the executive directors has entered into a service agreement with the Company for another term of two years commencing February 23, 2013.

In accordance with article 87 of the Company's Articles of Association, Mr. Xu Li Chang, Mr, Garry Alides Willinge and Mr. Wu Zhi Gao will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received from each of the independent non-executive directors a confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

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

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

As at December 31, 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 December 31, 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)

Notes:

(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 December 31, 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 December 31, 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.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 34 to the consolidated financial statements.

On January 17, 2011, 20,000,000 share options to subscribe for ordinary shares of HK$0.10 each of the Company were granted to certain eligible participants ("the Grantees 1"), subject to acceptance of each of the Grantees 1, under the share option scheme adopted by the Company on February 2, 2007. The 20,000,000 share options were lapsed on 22 March 2013.

On July 3, 2013, 36,000,000 share options to subscribe for ordinary shares of HK$0.10 each of the Company were granted to certain eligible participants ("the Grantees 2"), subject to acceptance of each of the Grantees 2, under the share option scheme adopted by the Company on February 2, 2007. Details are set out in the Company's announcement dated July 3, 2013.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes as disclosed in note 34 to the consolidated financial statements, at no time during the year was the Company, its ultimate holding company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company or their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the related party transactions, certain of which also constitute connected transactions under the Listing Rules disclosed below, during the year are set out in note 35 to the consolidated financial statements.

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

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 December 31, 2013 and as at the date of this report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2013, the Group had the following connected transactions under the Listing Rules. In the opinion of the directors, such connected transactions were conducted in the normal course of business.

Continuing connected transaction

Office rental and other charges

On July 31, 2008, 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 Marnav Holdings Limited (an independent third party) of one part, and Frank Union Limited ("Frank Union") (an associate of Mr. Wong) and the Group of the other part. The Tenancy Agreement is effective from August 1, 2008 to July 31, 2011. The Tenancy Agreement was renewed on July 22, 2011 for a further term of three years from August 1, 2011 to July 31, 2014.

A sharing agreement dated July 31, 2008 and subsequently renewed on July 22, 2011 for a further term of three years from August 1, 2011 to July 31, 2014 (the "Sharing Agreement") was entered into between Frank Union 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.

Having regard to the fact that (i) the Company is to share at cost the rent, rates, service fee and utilities charges incurred in respect of the premises subject to the Tenancy Agreement and Sharing Agreement proportional to the area used; and (ii) the rent and service fee are negotiated and agreed with an independent third party, rates are imposed by the government and utilities charges by the relevant independent third party service providers, the Directors consider the terms of the Tenancy Agreement and Sharing Agreement to be on normal commercial terms and are fair and reasonable so far as the Company is concerned. The Directors are of the view that the transactions under the Tenancy Agreement and Sharing Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the shareholders as a whole.

During the year, an amount of HK$4,323,000 was paid for the office rental and office premises expenses respectively in relation to the use of the principal place of business of the Company in Hong Kong.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

Mr. Wong, managing director of the Company, is interested in certain property development projects in the PRC. Pursuant to the option agreements entered into between the Company and Mr. Wong on February 8, 2007, the Company has the right to acquire most of the properties held, whether directly or indirectly, by Mr. Wong. In addition, pursuant to the non-competition deed dated February 8, 2007 signed by Mr. Wong in favour of the Company (the "Non-competition Deed"), Mr. Wong has undertaken to the Company to make necessary arrangements as stated in the Non-competition Deed to avoid competing with the business of the Group. Details of such arrangements are set out in the prospectus dated February 9, 2007 issued by the Company ("Prospectus").

The Company has received confirmation from Mr. Wong that he has complied with the terms of the Deed of Undertaking since the Listing and up to the date of this report. Furthermore, there was no new business opportunities referred from Mr. Wong to the Company during the same period.

Saved as disclosed above, during the year ended December 31, 2013 and up to the date of this report, none of the directors, the substantial shareholders or the management shareholders had any interests in any business which competed with or might compete with the business of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's five largest customers were less than 30% of total revenue.

The largest supplier of the Group by itself and taken together with the next four largest suppliers accounted for 15.5% and 26.8% respectively of the Group's total purchases for the year.

At no time during the year did a director, an associate of a director, or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest suppliers.

EMOLUMENT POLICY

As at December 31, 2013, the Group had approximately 355 employees in Hong Kong and in the PRC. The total staff costs incurred were approximately HK$43 million.

The Group remunerates its employees mainly with reference to individual performance, qualification, experience and the prevailing industry practice. Apart from basic remuneration and statutory retirement benefit scheme, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as individual performance. In addition, share options may be granted from time to time in accordance with the terms of the Company's approved share option scheme to provide incentives and rewards to the employees.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Board and management of the Company are committed to maintain high standards of corporate governance. A report on the principal corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 15 to 23 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the directors, there is sufficient public float of 25% of the Company's issued shares as required under the Listing Rules as at the latest practicable date prior to the issue of this report.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Dr. Wang Shih Chang, George
Chairman

Hong Kong, March 27, 2014

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE MEMBERS OF CHINA PROPERTIES GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Properties Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 109, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2013 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 27, 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2013

	Notes	**2013** **HK$'000**	2012 HK$'000
Revenue	8	**1,045,402**	692,760
Cost of sales		**(601,251)**	(429,980)
Gross profit		**444,151**	262,780
Other income and gains	8	**77,772**	53,587
Selling expenses		**(41,819)**	(34,470)
Administrative expenses		**(126,664)**	(99,233)
Finance costs	9	**—**	—
Profit from operation before changes in fair value of investment properties and conversion option derivative		**353,440**	182,664
Changes in fair value of investment properties		**1,051,996**	2,089,534
Changes in fair value of conversion option derivative	27	**63,073**	26,456
Profit before tax		**1,468,509**	2,298,654
Income tax expense	10	**(336,943)**	(541,915)
Profit for the year attributable to owners of the Company	11	**1,131,566**	1,756,739
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**1,215,806**	649,121
Total comprehensive income for the year attributable to owners of the Company		**2,347,372**	2,405,860
Earnings per share			
— Basic (HK dollar)	14	**0.63**	0.97
— Diluted (HK dollar)	14	**0.53**	0.86

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current Assets			
Property, plant and equipment	15	**393,613**	327,644
Prepaid lease payments	16	**170,784**	161,652
Investment properties	17	**58,641,187**	55,281,545
		59,205,584	55,770,841
Current Assets			
Properties under development for sales	18	**3,954,146**	3,595,693
Properties held for sales	19	**477,013**	463,239
Trade and other receivables, deposits and prepayments	20	**200,962**	365,002
Tax recoverable		**—**	18,181
Pledged bank deposits	21	**101,142**	421,436
Bank balances and cash	21	**773,282**	48,771
		5,506,545	4,912,322
Current Liabilities			
Deposits received for sales of properties	22	**281,198**	1,146,923
Construction costs accruals		**595,174**	465,245
Other payables and accruals		**99,539**	154,768
Amount due to a shareholder	23	**81,237**	103,559
Tax payable		**840,120**	755,907
Borrowings — due within one year	24	**1,341,546**	3,147,668
9.125% fixed-rate senior notes	25	**810,859**	—
13.5% fixed-rate senior notes	26	**55,575**	—
Convertible note, current portion	27	**50,000**	—
Loan from a shareholder	23	**809,400**	—
		4,964,648	5,774,070
Net Current Assets (Liabilities)		**541,897**	(861,748)
Total Assets Less Current Liabilities		**59,747,481**	54,909,093

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current Liabilities			
Borrowings — due after one year	24	**2,401,059**	577,181
9.125% fixed-rate senior notes	25	**—**	795,529
13.5% fixed-rate senior notes	26	**1,898,802**	—
Convertible note, non-current portion	27	**273,645**	270,323
Conversion option derivative	27	**181,771**	244,844
Deferred tax liabilities	28	**12,259,925**	11,655,603
Loan from a shareholder	23	**—**	1,056,000
		17,015,202	14,599,480
Net Assets		**42,732,279**	40,309,613
Capital and Reserves			
Share capital	29	**180,907**	180,907
Share premium and reserves		**42,551,372**	40,128,706
Total Equity		**42,732,279**	40,309,613

The consolidated financial statements on pages 34 to 109 were approved and authorized for issue by the board of directors on March 27, 2014 and are signed on its behalf by:

Dr. Wang Shih Chang, George
DIRECTOR

Wong Sai Chung
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 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 contribution reserve** HK$'000 (Note d)	**Share option reserve** HK$'000 (note 34)	**Exchange reserve** HK$'000	**Retained earnings** HK$'000	**Total** HK$'000
At January 1, 2012	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 year	—	—	—	—	—	—	—	—	—	1,756,739	1,756,739
Other comprehensive income for the year	—	—	—	—	—	—	—	—	649,121	—	649,121
Total comprehensive income for the year	—	—	—	—	—	—	—	—	649,121	1,756,739	2,405,860
Recognition of share-based payment expenses	—	—	—	—	—	—	—	7,936	—	—	7,936
Deemed contribution	—	—	—	—	—	—	161,049	—	—	—	161,049
At December 31, 2012	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 year	—	—	—	—	—	—	—	—	—	1,131,566	1,131,566
Other comprehensive income for the year	—	—	—	—	—	—	—	—	1,215,806	—	1,215,806
Total comprehensive income for the year	—	—	—	—	—	—	—	—	1,215,806	1,131,566	2,347,372
Recognition of share-based payment expenses	—	—	—	—	—	—	—	3,294	—	—	3,294
Lapse of vested share options	—	—	—	—	—	—	—	(15,850)	—	15,850	—
Deemed contribution	—	—	—	—	—	—	72,000	—	—	—	72,000
At December 31, 2013	180,907	1,378,443	6,410	778,662	2,455,562	53,015	233,049	2,947	6,638,387	31,004,897	42,732,279

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 shares 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 Corporate 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 contribution reserve represents the deemed contribution arising from the loan from a shareholder, Mr. Wong. The details of the loan from a shareholder are set out in note 23.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

	2013 HK$'000	2012 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**1,468,509**	2,298,654
Adjustments for:		
Amortization of prepaid lease payments	**55**	54
Depreciation of property, plant and equipment	**2,453**	2,566
Share-based payment expenses	**3,294**	7,936
Changes in fair value of investment properties	**(1,051,996)**	(2,089,534)
Changes in fair value of conversion option derivative	**(63,073)**	(26,456)
Interest income	**(8,576)**	(3,131)
Gain on disposal of investment properties	**(41,940)**	(36,447)
Loss on disposal of property, plant and equipment	**—**	49
Operating cash flows before movements in working capital	**308,726**	153,691
Increase in properties under development for sales	**(571,576)**	(305,431)
Decrease in properties held for sales	**587,975**	417,227
Decrease in trade and other receivables, deposits and prepayments	**182,682**	11,454
Decrease in deposits received for sales of properties	**(886,496)**	(580,784)
Increase (decrease) in construction costs accruals	**87,576**	(119,180)
(Decrease) increase in other payables and accruals	**(57,325)**	41,353
Cash used in operations	**(348,438)**	(381,670)
PRC taxes paid	**(7,633)**	(3,979)
NET CASH USED IN OPERATING ACTIVITIES	**(356,071)**	(385,649)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(14,623)**	(7,037)
Additions to investment properties	**(255,345)**	(82,744)
Proceeds received from disposal of property, plant and equipment	**—**	280
Proceeds received from disposal of investment properties	**88,682**	64,953
Withdrawal of pledged bank deposits	**328,598**	175,073
Placement of pledged bank deposits	**(7,591)**	(523,483)
Interest received	**8,576**	3,131
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**148,297**	(369,827)

	2013 HK$'000	2012 HK$'000
FINANCING ACTIVITIES		
New borrowings raised	**4,609,698**	1,011,454
Repayments of borrowings	**(4,693,391)**	(1,032,581)
Proceed of fixed-rate senior notes raised	**1,946,495**	—
Advance from a shareholder	**—**	500,000
Repayment to a shareholder	**(382,085)**	(538,888)
Interest paid	**(437,432)**	(312,212)
Expenses on issue of loan and senior notes	**(114,049)**	(21,918)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**929,236**	(394,145)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**721,462**	(1,149,621)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**48,771**	1,192,134
Effect of foreign exchange rate changes	**3,049**	6,258
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**773,282**	48,771

1. GENERAL AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company is a public limited company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Hillwealth Holdings Limited ("Hillwealth"), a limited company incorporated in the British Virgin Islands ("BVI"). Its ultimate controlling party is Mr. Wong, who is also the Managing Director of the Company. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is 14th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

The Company acts as an investment holding company. The subsidiaries of the Company are principally engaged in property development and property investment in the PRC. The principal activities of its principal subsidiaries are set out in note 36.

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

In preparing the 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 December 31, 2013, the Group has borrowings and fixed-rate senior notes with carrying amounts of HK$1,341,546,000 and HK$866,434,000 respectively which are due to be repaid within one year from the end of the reporting period.

The directors of the Company closely monitor the liquidity of the Group. The Group is planning to obtain new long term borrowings from the bonds market and banks. After the end of the current financial year and up to the date of approval for issuance of these consolidated financial statements, the Group has successfully obtained a new credit facility of RMB800,000,000 (equivalent to approximately HK$1,023,280,000).

Having considered the above, the directors of the Company are satisfied that the Group will have sufficient working capital for its present requirement. On this basis, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 10 Consolidated Financial Statements

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC) Int-12 Consolidation — Special Purpose Entities. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at January 1, 2013.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — continued

HKFRS 12 Disclosure Of Interests In Other Entities

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has not had any impact on the disclosures in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply 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, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of 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.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see notes 6 and 17 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income". Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income 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 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. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — continued

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income — continued

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[4]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[4]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge accounting[4]
HK(IFRIC) — Int 21	Levies[4]

1 Effective for annual periods beginning on or after July 1, 2014, with limited exceptions
2 Effective for annual periods beginning on or after July 1, 2014
3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalized
4 Effective for annual periods beginning on or after January 1, 2014

Annual Improvements to HKFRSs 2010-2012 Cycle

The *Annual Improvements to HKFRSs 2010-2012 Cycle* include a number of amendments to various HKFRSs. The relevant ones are summarized below.

The amendments to HKFRS 2 (i) change the definitions of "vesting condition" and "market condition"; and (ii) add definitions for "performance condition" and "service condition" which were previously included within the definition of "vesting condition". The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognized in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after July 1, 2014.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2010–2012 Cycle* will have a material effect on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — continued

Annual Improvements to HKFRSs 2011-2013 Cycle

The *Annual Improvements to HKFRSs 2011–2013 Cycle* include a number of amendments to various HKFRSs. The relevant one is summarized below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2011–2013 Cycle* will have a material effect on the Group's consolidated financial statements.

The directors of the Company anticipate that the other new and revised HKFRSs will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 or value in use in HKAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Revenue recognition

Revenue is measured at the fair value at consideration received or receivable.

Revenue from sale of properties and pre-completion contracts for the sale of development properties in the ordinary course of business is recognized when all of the following criteria are satisfied:

- the significant risks and rewards of ownership of the properties are transferred to purchasers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The above criteria are met when the construction of relevant properties has been completed, and the title of properties has been transferred or the properties have been delivered to the purchasers pursuant to the sales agreement whichever is earlier and the collectibility of related receivables is reasonably assumed. Deposits and instalments received from purchasers for pre-sale of properties prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

Service income is recognized when services are provided.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortized on a straight-line basis over the lease term. During the construction period, the amortization charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Properties under development for sales

Properties under development for sales are stated at the lower of cost and net realizable value. Cost comprises both the prepaid lease payments for the land and development cost for the property. Net realizable value takes into account the price ultimately expected to be realized, less applicable selling expenses and the anticipated costs to completion.

Development cost of property comprises construction costs, borrowing costs capitalized according to the Group's accounting policy and directly attributable cost incurred during the development period. On completion, the properties are transferred to properties held for sales.

Properties held for sales

Properties held for sales are stated at the lower of cost and net realizable value. Cost includes the cost of land, development costs attributable to the properties held for sale, other costs that have been incurred in bringing the properties to their existing condition as well as finance costs capitalized.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, and bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment (see accounting policy in respect of impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Financial assets — continued

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. They are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables carried at amortised cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at FVTPL

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value at the end of each reporting period, with changes in fair value recognized directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Financial liabilities and equity instruments — continued

Other financial liabilities

Other financial liabilities, other than convertible note and conversion option derivative (see accounting policy below), including borrowings, construction costs accruals, other payables and accruals, amount due to/loan from a shareholder and fixed-rate senior notes are subsequently measured at amortized cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Convertible note and conversion option derivative

Convertible note issued by the Group that contains both liability and conversion option components is classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognized at fair value.

In subsequent periods, the liability component of the convertible note is carried at amortized cost using the effective interest method. The conversion option derivative together with other embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible note using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Financial instruments — continued

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment losses on assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Taxation — continued

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at that date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on monetary items are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Company (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which cease the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognized as expenses on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgment in applying accounting policies

The following is the critical judgment that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under 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. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. Accordingly, deferred taxation in relation to the Group's investment properties has been measured based on the tax consequences of recovering the carrying amounts entirely through use.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each 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.

Estimate of fair value of investment properties under construction

As described in note 17, investment properties under construction are mainly measured at fair value at the end of each reporting period using a residual method by independent professional valuers. Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation reflect market condition. Where there are any changes in the assumptions due to the market conditions in the PRC, the estimate of fair value of investment properties under construction may be significantly affected. As at December 31, 2013, investment properties under construction of approximately HK$48,025,567,000 (2012: HK$45,623,771,000) are revalued using a residual method.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

Key sources of estimation uncertainty — continued

Estimate of fair value of conversion option derivative

As described in note 27, the directors of the Company engaged an independent valuer who applied appropriate valuation technique for conversion option derivative that is not quoted in an active market. The conversion option derivative was valued using the binomial option pricing model that incorporated market data and involved uncertainty in estimates in the assumptions. Because binomial option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions used are disclosed in notes 6 and 27. As at December 31, 2013, the carrying amount of conversion option derivative is approximately HK$181,771,000 (2012: HK$244,844,000). The directors believe that the chosen valuation technique and assumptions are appropriate in determining the fair value of the conversion option derivative.

Estimate of net realizable value of properties under development for sales and properties held for sales

As at December 31, 2013, properties under development for sales of approximately HK$3,954,146,000 (2012: HK$3,595,693,000) and properties held for sales of approximately HK$477,013,000 (2012: HK$463,239,000) are stated at lower of cost and net realizable value. Cost of each unit in each phase of development is determined using the weighted average method. The estimated net realizable value is estimated selling price less selling expenses and estimated costs of completion (if any), which are estimated based on best available information. Where there are any decrease in the estimated selling price arising from any changes to the market conditions in the PRC, there may be impairment loss recognized on the properties under development for sales and properties held for sales.

Land appreciation taxes

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

The Group is subject to LAT in the PRC which has been included in income tax expense of the Group. Significant judgment is required in determining the amount of land appreciation and the related taxes. The Group recognizes these liabilities based on the management's best estimates. Where the final outcome of this matter is different from the amounts that were initially recorded, such differences will impact the income tax expense in the period in which such determination is made. As at December 31, 2013, the Group has LAT payable of approximately HK$723,960,000 (2012: HK$692,501,000).

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

Key sources of estimation uncertainty — continued

Provision for legal disputes and contingent liabilities under construction contracts

As at December 31, 2013, the Group is subjected to several legal claims in relation to disputes under construction contracts in respect of its various property development projects which arose during the normal course of business. Determining whether provision for construction costs in dispute is necessary requires an estimation of probability that an outflow of resources embodying economic benefits to be required for settling the obligation and an estimation of the amount of the obligation which can be measured reliably at the end of the reporting period. Based on the advices from the independent legal advisors, those outstanding legal claims that are still in preliminary stage and the final outcome is unable to be determined at this stage amounted to approximately HK$124 million (2012: HK$360 million) in aggregate. In the opinion of the directors of the Company, the Group has possible obligation in relation to these legal disputes; however, a sufficiently reliable estimate of the amount of the obligation cannot be made at the end of the reporting period. Disclosure of such contingent liabilities has been made in note 30. As a result, amount of HK$124 million has been disclosed as contingent liabilities and such amount has not been included in construction cost accruals nor provision made in the consolidated financial statements.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the amount due to/loan from a shareholder, borrowings, 9.125% fixed-rate senior notes, 13.5% fixed rate senior notes and convertible note disclosed in notes 23, 24, 25, 26 and 27 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings. The directors of the Company monitor current and expected liquidity requirement as well as the summary compliance report on loan covenants regularly. At December 31, 2013, the Group is able to comply with all the financial covenant terms set out in the agreements of the debt borrowings.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payments of dividends, new shares issues, shares buy-backs and issue of new debts or redemption of existing debts.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2013	2012
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**900,143**	487,388
Financial liabilities		
Financial liabilities classified as at FVTPL	**181,771**	244,844
Amortized cost	**8,416,836**	6,570,273

Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, construction costs accruals, other payables and accruals, amount due to/loan from a shareholder, borrowings, fixed-rate senior notes, convertible note and conversion option derivative. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The Group's transactions are mainly denominated in RMB (which is the functional currency of respective group entities), except for certain pledged bank deposits, bank balances, borrowings, fixed rate senior notes, convertible note and conversion option derivative which are denominated in HK$ and United States dollars ("US$") as disclosed below. The Group has not used any forward contract to hedge its exposure to currency risk. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. A significant depreciation/appreciation in the RMB against US$ and HK$ may have a material impact on the Group's results.

6. FINANCIAL INSTRUMENTS — continued

Market risk — continued

Foreign currency risk — continued

As at the end of the reporting period, certain financial assets and financial liabilities of the Group were denominated in HK$ and US$ which are the currencies other than the functional currency of the relevant group entities. The carrying amounts of those foreign currency monetary items are set out below:

	HK$		US$	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Pledged bank deposits	**9,361**	—	**85,107**	334,270
Bank balances and cash	**16,679**	47,422	**541,666**	46
Borrowings	**—**	—	**—**	1,075,620
Fixed rate senior notes	**—**	—	**2,765,236**	795,529
Convertible note	**323,645**	270,323	**—**	—

Sensitivity analysis

The Group is mainly exposed to the currency of HK$ and US$ and the sensitivity analysis includes only outstanding foreign currency denominated monetary items and their translation at the year end for a 5% (2012: 5%) change in foreign currency rates. 5% (2012: 5%) is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates.

A positive number below indicates an increase in post-tax profit for the year where RMB strengthens 5% against US$ and HK$ for the current year. For a 5% weakening of RMB against US$ and HK$, there would be an equal but opposite impact on the post-tax profit for the year.

	HK$ impact		US$ impact	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Profit for the year	**14,880**	11,145	**106,923**	76,842

6. FINANCIAL INSTRUMENTS — continued

Market risk — continued

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 24 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of base rate fixed by the People's Bank of China ("PBOC") (2012: PBOC and London InterBank Offered Rates ("LIBOR")) arising from the Group's bank borrowings. The Group currently does not have any interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's fair value interest rate risk relates primarily to its fixed-rate bank deposits, fixed-rate bank and other borrowings (see note 24 for details), fixed-rate senior notes (see notes 25 and 26 for details) and convertible note (see note 27 for details). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. In addition, the management monitors the interest rate movement for long term borrowings and will consider to exercise the redemption option of the fixed-rate senior notes if necessary.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 1% (2012: 1%) increase or decrease is used in management's assessment of the reasonably possible change in interest rates.

If interest rates relating to the variable-rate borrowings of the Group increase or decrease by 1%, finance costs would increase or decrease by approximately HK$19,944,000 (2012: HK$30,935,000). Since all the Group's finance costs had been capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales, there would be no effect on the Group's post-tax profit for the year.

Other price risk

The Group is required to estimate the fair value of the conversion option derivative embedded in the convertible note at the end of each reporting period with changes in fair value to be recognized in the profit or loss as long as the convertible note is outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

6. FINANCIAL INSTRUMENTS — continued

Market risk — continued

Other price risk — continued

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk and volatility risk arising from conversion option derivative at the end of the reporting period only as the directors of the Company consider that the change in market interest rate may not have significant financial impact on the fair value of conversion option derivative.

(i) Changes in share price

If the Company's share price had been 5% higher/lower and all other variables were held constant, the Group's profit for the year (as a result of changes in fair value of conversion option derivative) would decrease by approximately HK$19,300,000/increase by approximately HK$11,900,000 (2012: increase/decrease by approximately HK$24,083,000).

(ii) Changes in volatility

If the volatility of the Company's share price had been 5% higher/lower while all other variables were held constant, the Group's profit for the year ended December 31, 2013 (as a result of changes in fair value of conversion option derivative) would decrease/increase by approximately HK$4,300,000 (2012: HK$14,968,000).

Liquidity risk

The Group is exposed to significant liquidity risk as at December 31, 2013 as described in note 1. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The management closely monitors the utilization of bank and other borrowings and ensure compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings at December 31, 2013 and 2012 with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

6. FINANCIAL INSTRUMENTS — continued

Liquidity risk — continued

Liquidity table

	Weighted average interest rate	On demand or less than 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts HK$'000
As at December 31, 2013							
Construction costs accruals	**N/A**	**595,174**	**—**	**—**	**—**	**595,174**	**595,174**
Other payables and accruals	**N/A**	**99,539**	**—**	**—**	**—**	**99,539**	**99,539**
Amount due to a shareholder	**N/A**	**81,237**	**—**	**—**	**—**	**81,237**	**81,237**
Loan from a shareholder	**12.000%**	**881,400**	**—**	**—**	**—**	**881,400**	**809,400**
Borrowings — variable-rate	**6.2071%**	**223,765**	**1,022,339**	**992,520**	**—**	**2,238,624**	**1,994,395**
Borrowings — fixed-rate	**11.342%**	**1,340,917**	**524,538**	**—**	**—**	**1,865,455**	**1,748,210**
9.125% fixed-rate senior notes	**9.125%**	**825,474**	**—**	**—**	**—**	**825,474**	**810,859**
13.5% fixed-rate senior notes	**13.5%**	**315,023**	**263,250**	**2,739,750**	**—**	**3,318,023**	**1,954,377**
Convertible note (Note)	**5%**	**50,000**	**25,000**	**590,167**	**—**	**665,167**	**505,416**
Financial guarantee contracts	**N/A**	**1,655,422**	**—**	**—**	**—**	**1,655,422**	**—**
		6,067,951	**1,835,127**	**4,322,437**	**—**	**12,225,515**	**8,598,607**
As at December 31, 2012							
Construction costs accruals	N/A	465,245	—	—	—	465,245	465,245
Other payables and accruals	N/A	154,768	—	—	—	154,768	154,768
Amount due to a shareholder	N/A	103,559	—	—	—	103,559	103,559
Loan from a shareholder	12.000%	—	1,200,000	—	—	1,200,000	1,056,000
Borrowings — variable-rate	6.129%	3,101,453	81,542	—	—	3,182,995	3,093,480
Borrowings — fixed-rate	20.424%	212,498	541,676	—	—	754,174	631,369
9.125% fixed-rate senior notes	9.125%	73,029	825,474	—	—	898,503	795,529
Convertible note (Note)	5%	—	50,000	75,000	540,167	665,167	515,167
Financial guarantee contracts	N/A	1,386,417	—	—	—	1,386,417	—
		5,496,969	2,698,692	75,000	540,167	8,810,828	6,815,117

Note: As at December 31, 2013, the carrying amount represents the total carrying amounts of the convertible note and conversion option derivative of approximately HK$323,645,000 (2012: HK$270,323,000) and HK$181,771,000 (2012: HK$244,844,000) respectively.

As at December 31, 2013, bank borrowings with a repayment on demand clause were included in the "on demand or less than 1 year" time brand in the above maturity analysis. The aggregate undiscounted principal amounts were approximately HK$411,107,000. Taking into account the Group's financial position, the directors did not believe that it was probable that the banks would exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings would be repaid one to two years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows would amount to approximately HK$465,534,000 (HK$123,208,000 repayable within 1 year and HK$342,326,000 repayable 1–2 years).

6. FINANCIAL INSTRUMENTS — continued

Liquidity risk — continued

Liquidity table — continued

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Credit risk

As at December 31, 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position; and

- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 30.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

For properties that are still under construction, the Group typically provides guarantees to banks in connection with its customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. Such guarantees will expire upon the completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstance, the Group is able to retain the customer's deposit and sell the property to recover any amount paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

6. FINANCIAL INSTRUMENTS — continued

Fair value measurement of financial instruments

This note provide information about how the Group determines fair value of various financial assets and financial liabilities.

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

Conversion option derivative is measured at fair value at the end of each reporting period. The following table gives information about how the fair value of this conversion option derivative is determined (in particular, the valuation technique and inputs used).

Financial liability	Fair value as at December 31, 2013	Fair value Hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Conversion option derivative	Liability: HK$181,771,000	Level 3	Binominal option pricing model The fair value is estimated based on risk free rate, discount rate, share price (from observable market date), volatility of the share price of the Company and dividend yield and exercise price	Volatility of the share price of the Company, determined by reference to the historical share price of the Company (Note)

Note: The higher the volatility of the share price of the Company, the higher the fair value of the conversion option derivative. The volatility of the share price of the Company used in the fair value measurement is 30.872%. Details of the sensitivity analysis is set out in "other price risk".

There is no transfer between different levels of the fair value hierarchy for the year ended December 31, 2013 and 2012.

Reconciliation of Level 3 fair value measurements of conversion option derivative

	Conversion option derivative HK$'000
Carrying amount at the date of issue	271,300
Fair value gain recognized in profit or loss	(26,456)
At December 31, 2012	244,844
Fair value gain recognized in profit or loss	(63,073)
At December 31, 2013	181,771

6. FINANCIAL INSTRUMENTS — continued

Fair value measurement of financial instruments — continued

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

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.

(ii) Fair value of financial assets and liabilities that are not measured on a recurring basis

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values. The fair values of fixed-rate senior notes (categorized within level 1 hierarchy) have been determined with quoted bid prices in active market. The fair values of other financial assets and financial liabilities (categorized within Level 3 hierarchy) have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

7. SEGMENT INFORMATION

The Company's Chief Executive Officer is the chief operating decision maker. The Group is principally operating in two operating locations and engaged in three principal business activities. Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the operating locations of each principal business activity. The principal locations are Shanghai and Chongqing in the PRC. The Group's operating segments under HKFRS 8 are therefore as follows:

Property development (developing and selling of properties)	— Shanghai
	— Chongqing
Property investment (leasing of investment properties)	— Shanghai
	— Chongqing

Others (hotel operation, provision of building management and construction consultancy service)

Information regarding the above segments is presented below.

7. SEGMENT INFORMATION — continued

Segment revenue and results

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

For the year ended December 31, 2013

	Property development		**Property investment**			
	Shanghai	**Chongqing**	**Shanghai**	**Chongqing**	**Others**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Revenue						
External sales	**—**	**1,030,502**	**6,655**	**—**	**8,245**	**1,045,402**
Segment profit (loss)	**—**	**413,707**	**918,038**	**190,161**	**(4,505)**	**1,517,401**
Other income and gains						**77,772**
Unallocated expenses						**(126,664)**
Profit before tax						**1,468,509**

For the year ended December 31, 2012

	Property development		Property investment			
	Shanghai	Chongqing	Shanghai	Chongqing	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue						
External sales	628	673,286	15,999	—	2,847	692,760
Segment profit (loss)	226	242,807	1,783,285	326,869	(8,887)	2,344,300
Other income and gains						53,587
Unallocated expenses						(99,233)
Profit before tax						2,298,654

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. 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 payment expenses and certain directors' salaries. This is the measure reported to the Company's Chief Executive Officer for the purposes of resource allocation and performance assessment.

7. SEGMENT INFORMATION — continued

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment which is also the information presented to the Company's Chief Executive Officer:

	2013	2012
	HK$'000	HK$'000
Segment assets:		
Property development		
— Shanghai	**1,080,821**	832,909
— Chongqing	**3,359,650**	3,228,799
Property investment		
— Shanghai	**48,409,397**	46,040,002
— Chongqing	**10,231,790**	9,241,543
Others	**500,267**	427,831
Segment total	**63,581,925**	59,771,084
Unallocated assets	**1,130,204**	912,079
Consolidated assets	**64,712,129**	60,683,163
Segment liabilities:		
Property development		
— Shanghai	**320,103**	374,236
— Chongqing	**2,658,624**	2,863,804
Property investment		
— Shanghai	**1,767,766**	1,217,473
— Chongqing	**3,052,778**	2,615,501
Others	**112,279**	114,477
Segment total	**7,911,550**	7,185,491
Unallocated liabilities	**14,068,300**	13,188,059
Consolidated liabilities	**21,979,850**	20,373,550

7. SEGMENT INFORMATION — continued

Segment assets and liabilities — continued

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reporting segments, other than certain property, plant and equipment, certain prepaid lease payments, other receivables, deposits and prepayments, tax recoverable, pledged bank deposits, and bank balances and cash, which are commonly used among segments or used for corporate operation.

- all liabilities are allocated to operating and reporting segments other than other payables and accruals, amount due to a shareholder, loan from a shareholder, and current and deferred tax liabilities, which are corporate liabilities that are unallocated either. Borrowings, fixed-rate senior notes and convertible note are allocated on a consistent basis with finance costs capitalized. Conversion option derivative is allocated according to the portion of convertible note allocated.

Other segment information

For the year ended December 31, 2013

	Property development		Property investment			Segments'		
	Shanghai	Chongqing	Shanghai	Chongqing	Others	total	Adjustments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Note a)	HK$'000
Amounts included in the measure of segment profit or loss or segment assets:								
Changes in fair value of investment properties	—	—	912,933	139,063	—	1,051,996	—	1,051,996
Additions to non-current assets (Note b)	—	—	147,913	571,508	57,680	777,101	2,017	779,118
Depreciation of property, plant and equipment	—	—	—	—	232	232	3,838	4,070
Gain on disposal of investment properties	—	—	—	—	—	—	41,940	41,940
Amortization of prepaid lease payments	—	—	—	—	4,985	4,985	55	5,040

7. SEGMENT INFORMATION — continued

Other segment information — continued

For the year ended December 31, 2012

	Property development		Property investment			Segments'		
	Shanghai	Chongqing	Shanghai	Chongqing	Others	total	Adjustments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
							(Note a)	
Amounts included in the measure of segment profit or loss or segment assets:								
Changes in fair value of investment properties	—	—	1,781,111	308,423	—	2,089,534	—	2,089,534
Additions to non-current assets (Note b)	—	—	95,720	295,777	40,470	431,967	2,992	434,959
Depreciation of property, plant and equipment	—	—	—	—	189	189	4,097	4,286
Gain on disposal of investment properties	—	—	—	—	—	—	36,447	36,447
Loss on disposal of property, plant and equipment	—	—	—	—	—	—	49	49
Amortization of prepaid lease payments	—	—	—	—	4,595	4,595	54	4,649

Notes:

(a) All amounts included in the measure of segment profit or loss or segment assets are allocated to operating segments other than certain additions to non-current assets, depreciation of property, plant and equipment, gain on disposal of investment properties, loss on disposal of property, plant and equipment and amortization of prepaid lease payments which are related to unallocated assets commonly used between segments or used for corporate operation.

(b) Non-current assets include investment properties, property, plant and equipment and prepaid lease payments.

Geographical information

All revenue of the Group are derived from operations in the PRC.

Non-current assets of the Group are mainly located in the PRC (group entities' country of domicile).

Information about major customer

For the years ended December 31, 2013 and December 31, 2012, no revenue from a customer of the corresponding year contributed over 10% of the total revenue of the Group.

8. REVENUE AND OTHER INCOME AND GAINS

	2013 HK$'000	2012 HK$'000
Revenue		
Sales of residential properties	**1,030,502**	673,914
Property rental income	**6,655**	15,999
Property management income	**8,245**	2,847
	1,045,402	692,760
Other income and gains		
Gain on disposal of investment properties	**41,940**	36,447
Net exchange gain	**26,374**	10,867
Interest on bank deposits	**8,576**	3,131
Others	**882**	3,142
	77,772	53,587
Total revenue and other income and gains	**1,123,174**	746,347

9. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on other borrowings wholly repayable within five years	**204,148**	36,584
Interest on bank borrowings wholly repayable within five years	**249,751**	224,516
Effective interest expense on fixed-rate senior notes	**130,657**	76,593
Effective interest expense on convertible note	**53,322**	41,623
Effective interest expense on loan from a shareholder	**144,000**	17,049
Total finance costs	**781,878**	396,365
Less: Amount capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales	**(781,878)**	(396,365)
	—	—

Borrowing costs capitalized during the year arose on the specific borrowings are approximately HK$322,001,000 (2012: HK$396,365,000). Borrowing costs capitalized during the year arose on the general borrowing pool of approximately HK$459,877,000 (2012: nil) are calculated by applying a capitalization rate of 10.87% per annum (2012: nil) to expenditure on qualifying assets.

10. INCOME TAX EXPENSE

	2013	2012
	HK$'000	HK$'000
Current tax in the PRC	**76,267**	22,665
Deferred tax (note 28):		
Current year	**260,676**	519,250
	336,943	541,915

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 years.

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.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years 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.

Income tax expense for the year can be reconciled from the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013	2012
	HK$'000	HK$'000
Profit before tax	**1,468,509**	2,298,654
Tax at PRC enterprise income tax rate of 25%	**367,127**	574,664
Tax effect of expenses not deductible for tax purpose	**9,014**	10,537
Tax effect of income not taxable for tax purpose	**(39,198)**	(43,286)
Income tax expense for the year	**336,943**	541,915

11. PROFIT FOR THE YEAR

	2013 HK$'000	2012 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (note 12)	**1,564**	1,535
Other staff costs		
— salaries and other benefits	**35,301**	28,897
— contributions to retirement benefits schemes	**6,011**	5,617
Total staff costs	**42,876**	36,049
Less: Amount capitalized in investment properties under construction and properties under development for sales	**(16,157)**	(9,091)
	26,719	26,958
Share-based payment expenses (included in administrative expenses)	**3,294**	7,936
Auditor's remuneration	**3,437**	2,472
Amortization of prepaid lease payments	**5,040**	4,649
Less: Amount capitalized in construction in progress under property, plant and equipment	**(4,985)**	(4,595)
	55	54
Depreciation of property, plant and equipment	**4,070**	4,286
Less: Amount capitalized in construction in progress under property, plant and equipment	**(1,617)**	(1,720)
	2,453	2,566
Loss on disposal of property, plant and equipment	**—**	49
Cost of properties sold (included in cost of sales)	**587,975**	417,223
Compensation to purchasers to re-schedule delivery of properties	**39,115**	16,671
Gross rental income from investment properties	**(6,655)**	(15,999)
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	**527**	1,039
	(6,128)	(14,960)

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's emoluments

	2013 **HK$'000**	2012 HK$'000
Fees	**1,261**	1,259
Salaries and allowances	**303**	276
	1,564	1,535

The emoluments paid to the directors and chief executive were as follows:

For the year ended December 31, 2013

	Fees **HK$'000**	**Salaries and allowances** **HK$'000**	**Retirement benefits scheme contributions** **HK$'000**	**Total** **HK$'000**
Executive directors:				
Dr. Wang Shih Chang, George	—	—	—	—
Mr. Wong (Note)	—	—	—	—
Mr. Xu Li Chang	—	303	—	303
	—	303	—	303
Non-executive director:				
Mr. Kwan Kai Cheong	240	—	—	240
Independent non-executive directors:				
Mr. Warren Talbot Beckwith	240	—	—	240
Mr. Cheng Chaun Kwan, Michael	240	—	—	240
Mr. Luk Koon Hoo	240	—	—	240
Mr. Garry Alides Willinge	240	—	—	240
Mr. Wu Zhi Gao	61	—	—	61
	1,021	—	—	1,021
	1,261	303	—	1,564

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS — continued

Directors' and chief executive's emoluments — continued

For the year ended December 31, 2012

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Dr. Wang Shih Chang, George	—	—	—	—
Mr. Wong (Note)	—	—	—	—
Mr. Xu Li Chang	—	276	—	276
	—	276	—	276
Non-executive director:				
Mr. Kwan Kai Cheong	240	—	—	240
Independent non-executive directors:				
Mr. Warren Talbot Beckwith	240	—	—	240
Mr. Cheng Chaun Kwan, Michael	240	—	—	240
Mr. Luk Koon Hoo	240	—	—	240
Mr. Garry Alides Willinge	240	—	—	240
Mr. Wu Zhi Gao	59	—	—	59
	1,019	—	—	1,019
	1,259	276	—	1,535

Note: Mr. Wong is also the chief executive of the Company and no emoluments for his services rendered as the chief executive was provided by the Group.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS — continued

Employees' emoluments

The emoluments for the five individuals with the highest emoluments in the Group did not include any director and chief executive of the Company for both years, details of whose emoluments are set out above. The emoluments of the five highest paid individuals (2012: five) were as follows:

	2013 **HK$'000**	2012 HK$'000
Salaries and allowances	**4,568**	4,131
Retirement benefits scheme contributions	**104**	106
	4,672	4,237

Their emoluments were within the following bands:

	2013 **Number of employees**	2012 Number of employees
Nil to HK$1,000,000	**4**	3
HK$1,000,001 to HK$1,500,000	**1**	2
	5	5

During both years, no remuneration was paid by the Group to any of the directors and chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and chief executive waived any remuneration during both years.

13. DIVIDEND

No dividend was paid or declared during the year ended December 31, 2013 and 2012, nor has any dividend been proposed since the end of the reporting period.

14. EARNINGS PER SHARE

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

	2013	2012
	HK$'000	HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**1,131,566**	1,756,739
Effect of dilutive potential ordinary shares:		
— Change in fair value of conversion option derivative	**(63,073)**	(26,456)
— Effective interest expense on convertible note (net of income tax) (Note)	**—**	—
Earnings for the purpose of diluted earnings per share	**1,068,493**	1,730,283

	2013	2012
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue during the year for the purpose of basic earnings per share	**1,809,077**	1,809,077
Effect of dilutive potential ordinary shares:		
— Convertible note	**206,612**	191,934
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,015,689**	2,001,011

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 purposes of diluted earnings per share.

The computation of diluted earnings per share for both years did not assume the exercise of the Company's 2011 Share Options and 2013 Share Options (only for year 2013) (as defined in note 34) because the exercise price of these options was higher than the average market price of the Company's shares for both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK$'000 (Note)	Buildings HK$'000	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At January 1, 2012	65,530	22,806	50	12,072	11,934	212,750	325,142
Exchange adjustments	1,059	369	1	194	159	3,839	5,621
Additions	—	—	—	494	2,782	40,186	43,462
Disposals	—	—	—	—	(2,837)	—	(2,837)
At December 31, 2012	66,589	23,175	51	12,760	12,038	256,775	371,388
Exchange adjustments	1,942	699	1	551	260	8,181	11,634
Additions	—	1,546	—	494	—	57,658	59,698
At December 31, 2013	68,531	25,420	52	13,805	12,298	322,614	442,720
DEPRECIATION							
At January 1, 2012	14,744	7,476	50	9,072	9,948	—	41,290
Exchange adjustments	257	132	1	150	136	—	676
Provided for the year	1,646	1,058	—	729	853	—	4,286
Eliminated upon disposals	—	—	—	—	(2,508)	—	(2,508)
At December 31, 2012	16,647	8,666	51	9,951	8,429	—	43,744
Exchange adjustments	510	271	1	290	221	—	1,293
Provided for the year	1,689	1,116	—	514	751	—	4,070
At December 31, 2013	18,846	10,053	52	10,755	9,401	—	49,107
CARRYING VALUES							
At December 31, 2013	49,685	15,367	—	3,050	2,897	322,614	393,613
At December 31, 2012	49,942	14,509	—	2,809	3,609	256,775	327,644

Note: On initial recognition, the leasehold land was classified as investment properties carried at fair value. The leasehold land was subsequently transferred to property, plant and equipment during the year ended December 31, 2003.

15. PROPERTY, PLANT AND EQUIPMENT — continued

The above items of property, plant and equipment except for construction in progress are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the lease terms
Buildings	Shorter of lease terms and 4.5%
Office equipment, furniture and fixtures, and motor vehicles	18%–19%
Leasehold improvements	Shorter of the remaining term of the land lease on which the buildings are located and 4.5%

Certain of the Group's leasehold land, buildings and construction in progress with a carrying value of approximately HK$24,360,000 (2012: HK$24,486,000), nil (2012: HK$6,391,000) and HK$156,141,000 (2012: HK$139,184,000) respectively were pledged to secure certain borrowing facilities granted to the Group.

The leasehold land and buildings are located in the PRC under medium-term lease.

16. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments comprises land use rights in the PRC as follows:

	2013 **HK$'000**	2012 HK$'000
Long lease	**579**	617
Medium-term lease	**170,205**	161,035
	170,784	161,652

Certain of the Group's prepaid lease payments with a carrying amount of approximately HK$3,206,000 (2012: nil) was pledged to secure certain borrowing facilities granted to the Group.

17. INVESTMENT PROPERTIES

	2013 HK$'000	2012 HK$'000
FAIR VALUE		
Completed properties held for rental purpose (Note (a)):		
At the beginning of the year	**3,056,979**	3,064,922
Exchange adjustments	**91,298**	48,879
Disposals	**(46,753)**	(28,506)
Net changes in fair value recognized in profit or loss	**196,724**	(28,316)
At the end of the year	**3,298,248**	3,056,979
Leasehold land under and held for construction of properties for rental purpose and investment properties under construction		
At the beginning of the year	**48,394,370**	45,240,414
Exchange adjustments	**1,426,703**	758,033
Additions	**242,195**	9,439
Transfer from investment properties under construction	**—**	268,634
Net changes in fair value recognized in profit or loss	**855,272**	2,117,850
At the end of the year	**50,918,540**	48,394,370
Sub-total	**54,216,788**	51,451,349
COST		
Investment properties under construction (Note b):		
At the beginning of the year	**3,830,196**	3,657,835
Exchange adjustments	**116,977**	58,937
Transfer to leasehold land under and held for construction of properties for rental purpose and investment properties under construction	**—**	(268,634)
Additions	**477,226**	382,058
At the end of the year	**4,424,399**	3,830,196
Total	**58,641,187**	55,281,545
Unrealized gain on property revaluation included in profit or loss for the financial year	**1,051,996**	2,089,534

17. INVESTMENT PROPERTIES — continued

Notes:

(a) As at December 31, 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$2,650,448,000 (2012: HK$2,550,311,000); of which over 90% (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 building portion of the investment properties under construction cannot be measured reliably at the end of the reporting period, the amounts are carried at cost until either the fair value becomes reliably measureable, the stage in which more than 50% of construction completed, or construction is completed, whichever is earlier. 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 investment properties are under Level 3 fair value measurements. At the end of each reporting period, the chief financial officer ("CFO") works closely with the independent qualified professional valuer to establish and determine the appropriate valuation techniques and inputs. Discussion of valuation process and results are held between CFO and the directors of the Company at least twice a year.

The fair values of certain of the Group's investment properties at December 31, 2013 and 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, a member of the Institute of Valuers and has appropriate qualifications 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 December 31, 2013 determined by C&W are approximately HK$45,035,290,000 (2012: HK$42,882,520,000) and HK$6,288,525,000 (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 using the residual approach by making reference to recent sales transactions of completed properties or rental information in the relevant market as publicly available to determine the potential rental income of the completed investment properties, less estimated costs to completion and expected developed profit margin so as to determine the value of the proposed development as if these were completed as at the date of valuation. 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.

As at December 31, 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 December 31, 2013, the fair value of these two pieces of land in Chongqing amounting to approximately HK$2,892,973,000 (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 transactions.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

17. INVESTMENT PROPERTIES — continued

Details of the Group's investment properties and information about the Level 3 of the fair value hierarchy as at December 31, 2013 are as follows:

	Total HK$'000
Investment Properties	
Retail	50,520,651
Office	3,696,137
Total	54,216,788

Information about fair value measurements using significant unobservable input

Description	**Fair value as at December 31, 2013** HK$'000	**Valuation techniques**	**Unobservable inputs**	**Range (weighted average)**	**Relationship of unobservable inputs to fair value**
(1) Completed properties					
Shanghai Cannes and Phase 1 of Shanghai Concord City					
Retail	3,298,248	Income capitalization approach	(i) Gross capitalization rate	6% (for Shanghai Cannes) 3% (for Phase 1 of Shanghai Concord City)	The higher the gross capitalization rate, the lower the fair value.
			(ii) Market rent	RMB335 per square meter per month (for Shanghai Cannes) RMB1,269 per square meter per month (for Phase 1 of Shanghai Concord City)	The higher the market rent, the higher the fair value.
			(iii) Average occupancy rate	79.98%	The higher the occupancy rate, the higher the fair value.
			(iv) Discount rate	7.94% (for Shanghai Cannes) 9.11% (for Phase 1 of Shanghai Concord City)	The higher the discount rate, the lower the fair value.

17. INVESTMENT PROPERTIES — continued

Information about fair value measurements using significant unobservable input — continued

Description	Fair value as at December 31, 2013 HK$'000	Valuation techniques		Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Leasehold land under and held for construction of properties for rental purposes and investment properties under construction — fair values determined by C&W						
Shanghai Commercial Street at Minhang District ("Minhang"), Huashan Building ("Huashan") and Phase 2 of Shanghai Concord City ("Phase 2 of SH Concord City")						
Retail	39,493,361	Residual approach	(i)	Gross capitalization rate	6% (for Minhang) 3–4% (for Huashan and Phase 2 of SH Concord City)	The higher the gross capitalization rate,the lower the fair value.
			(ii)	Market rent	RMB491 per square meter per month (for Minhang) RMB1,372–RMB1,595 per square meter per month (for Huashan and Phase 2 of SH Concord City)	The higher the market rent, the higher the fair value.
			(iii)	Occupancy rate	80%–98%	The higher the occupancy rate, the higher the fair value.
			(iv)	Expected developer profit	10%–20%	The higher the expected profit, the lower the fair value.
			(v)	Construction cost to complete	RMB1,705,059,000	The higher the cost, the lower the fair value.
			(vi)	Discount rate	9.36% (for Minhang) 8.46%–9.12% (for Huashan and Phase 2 of SH Concord City)	The higher the discount rate, the lower the fair value.

17. INVESTMENT PROPERTIES — continued

Information about fair value measurements using significant unobservable input — continued

Description	Fair value as at December 31, 2013 HK$'000	Valuation techniques		Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Leasehold land under and held for construction of properties for rental purposes and investment properties under construction — fair values determined by C&W — continued						
Shanghai Phase 2 of Shanghai Concord City						
Office	2,243,682	Residual approach	(i)	Gross capitalization rate	4%	The higher the gross capitalization rate, the lower the fair value.
			(ii)	Market rent	RMB320 per square meter per month	The higher the market rent, the higher the fair value.
			(iii)	Occupancy rate	85%–95%	The higher the occupancy rate, the higher the fair value.
			(iv)	Expected developer profit	20%	The higher the expected profit, the lower the fair value.
			(v)	Construction cost to complete	RMB2,033,861,000	The higher the cost, the lower the fair value.
			(vi)	Discount rate	9.11%	The higher the discount rate, the lower the fair value.

17. INVESTMENT PROPERTIES — continued

Information about fair value measurements using significant unobservable input — continued

Description	Fair value as at December 31, 2013 HK$'000	Valuation techniques		Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Leasehold land under and held for construction of properties for rental purposes and investment properties under construction — fair values determined by C&W — continued						
Chongqing Manhattan City						
Retail	1,643,513	Residual approach	(i)	Gross capitalization rate	7.5%	The higher the gross capitalization rate, the lower the fair value.
			(ii)	Market rent	RMB195 per square meter per month	The higher the market rent, the higher the fair value.
			(iii)	Occupancy rate	65%–85%	The higher the occupancy rate, the higher the fair value.
			(iv)	Expected developer profit	25%	The higher the expected profit, the lower the fair value.
			(v)	Construction cost to complete	RMB2,017,020,000	The higher the cost, the lower the fair value.
			(vi)	Discount rate	10.05%	The higher the discount rate, the lower the fair value.

17. INVESTMENT PROPERTIES — continued

Information about fair value measurements using significant unobservable input — continued

Description	Fair value as at December 31, 2013 HK$'000	Valuation techniques		Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Leasehold land under and held for construction of properties for rental purposes and investment properties under construction — fair values determined by C&W — continued						
Chongqing Concord City						
Retail	3,478,984	Residual approach	(i)	Gross capitalization rate	7%	The higher the gross capitalization rate, the lower the fair value.
			(ii)	Market rent	RMB801 per square meter per month	The higher the market rent, the higher the fair value.
			(iii)	Occupancy rate	65%–85%	The higher the occupancy rate, the higher the fair value.
			(iv)	Expected developer profit	30%	The higher the expected profit, the lower the fair value.
			(v)	Construction cost to complete	RMB1,221,945,000	The higher the cost, the lower the fair value.
			(vi)	Discount rate	10.76%	The higher the discount rate, the lower the fair value.
Office	1,166,027	Residual approach	(i)	Selling price	RMB25,387 per square meter	The higher the selling price, the higher the fair value.
			(ii)	Expected developer profit	30%	The higher the expected profit, the lower the fair value.
			(iii)	Construction cost to complete	RMB9,000 per square meter	The higher the cost, the lower the fair value.
			(iv)	Discount rate	6.15%	The higher the discount rate, the lower the fair value.
	48,025,567					

17. INVESTMENT PROPERTIES — continued

Information about fair value measurements using significant unobservable input — continued

Description	Fair value as at December 31, 2013 HK$'000	Valuation techniques	Unobservable inputs		Range (weighted average)	Relationship of unobservable inputs to fair value
(3) Leasehold land under and held for construction of properties for rental purposes — fair values determined by the directors of the Company						
Chongqing International Commerce Centre						
Retail	2,606,545	Residual approach	(i)	Gross capitalization rate	7%	The higher the gross capitalization rate, the lower the fair value.
			(ii)	Market rent	RMB428 per square meter per month	The higher the market rent, the higher the fair value.
			(iii)	Occupancy rate	60%–85%	The higher the occupancy rate, the higher the fair value.
			(iv)	Expected developer profit	30%	The higher the expected profit, the lower the fair value.
			(v)	Discount rate	10.74%	The higher the discount rate, the lower the fair value.
Office	286,428	Residual approach	(i)	Selling price	RMB20,801 per square meter	The higher the selling price, the higher the fair value.
			(ii)	Expected developer profit	30%	The higher the expected profit, the lower the fair value.
			(iii)	Construction cost to complete	RMB9,000 per square meter	The higher the cost, the lower the fair value.
			(iv)	Discount rate	6.15%	The higher the discount rate, the lower the fair value.
	2,892,973					

17. INVESTMENT PROPERTIES — continued

There were no changes in valuation techniques during the year.

The investment properties shown above are situated on leasehold land in the PRC as follows:

	2013	2012
	HK$'000	HK$'000
Long lease	**6,856,278**	6,548,787
Medium-term lease	**51,784,909**	48,732,758
	58,641,187	55,281,545

As at December 31, 2013, certain of the Group's investment properties under construction carried at cost with a carrying value of approximately HK$707,676,000 (2012: HK$543,649,000) were pledged to secure certain borrowing facilities granted to the Group.

As at December 31, 2013, certain of the Group's investment properties (excluding investment properties under construction carried at cost) with a carrying value of approximately HK$27,310,194,000 (2012: HK$24,284,475,000) were pledged to secure certain borrowing facilities granted to the Group.

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 these stated at cost with details set out in Note b) and are classified and accounted for as investment properties.

As at December 31, 2012, the Group obtained six out of seven State-owned Land Use Rights Certificates ("Certificates") for Chongqing projects sites. As at December 31,2012, the carrying amounts of the prepaid lease payments, investment properties and properties under development for sales which relate to the remaining one amounted to approximately HK$85,042,000, HK$3,100,663,000 and HK$288,238,000 respectively. Such certificate was obtained in the current year.

18. PROPERTIES UNDER DEVELOPMENT FOR SALES

	2013 HK$'000	2012 HK$'000
Cost		
At the beginning of the year	**3,595,693**	3,601,495
Exchange adjustments	**105,177**	56,373
Additions	**841,514**	362,933
Transfer to properties held for sale	**(588,238)**	(425,108)
At the end of the year	**3,954,146**	3,595,693
Properties under development for sales of which:		
— expected to be completed within twelve months	**725,232**	419,344
— expected to be completed after twelve months after the end of the reporting period	**3,228,914**	3,176,349
	3,954,146	3,595,693

As at December 31, 2013, certain of the Group's properties under development for sales with a carrying value of approximately HK$2,637,663,000 (2012: HK$3,297,514,000) were pledged to secure certain borrowing facilities granted to the Group.

The carrying amount of properties under development for sales are situated on land use rights in the PRC as follows:

	2013 HK$'000	2012 HK$'000
Long lease	**221,743**	191,206
Medium-term lease	**3,732,403**	3,404,487
	3,954,146	3,595,693

19. PROPERTIES HELD FOR SALES

As at December 31, 2013, certain of the Group's properties held for sales with a carrying value of approximately HK$295,579,000 (2012: HK$302,298,000) were pledged to secure certain borrowing facilities granted to the Group.

20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Considerations in respect of completed properties sold are paid in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the agreement date.

Considerations in respect of properties sold under pre-sale contracts will be fully received prior to the delivery of the properties to the purchasers.

	2013	2012
	HK$'000	HK$'000
Trade receivables	**9,312**	2,775
Prepayment of business taxes and other PRC taxes	**23,148**	84,057
Other receivables, deposits and prepayments	**168,502**	278,170
	200,962	365,002

As at December 31, 2013, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$9,312,000 (2012: HK$2,775,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

The following is the ageing of trade receivables which are past due but not impaired:

	2013	2012
	HK$'000	HK$'000
Overdue:		
Within 30 days	**6,277**	—
31 to 90 days	**179**	—
Over 90 days	**2,856**	2,775
	9,312	2,775

21. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At December 31, 2013, pledged bank deposits of approximately HK$101,142,000 (2012: HK$421,436,000) were pledged for short term borrowings due within one year and the amount was classified as current.

The pledged bank deposits carry effective interest rates which range from 0.03% to 3.30% (2012: 0.15% to 2.85%) per annum. The pledged bank deposits will be released upon the settlement of the relevant bank borrowings. Bank balances carry interest at market rates which range from 0.01% to 1.50% (2012: 0.01% to 0.35%) per annum.

22. DEPOSITS RECEIVED FOR SALES OF PROPERTIES

	2013	2012
	HK$'000	HK$'000
Deposits received for sales of properties		
— expected to be realized within twelve months	**281,198**	1,146,923

23. AMOUNT DUE TO AND LOAN FROM A SHAREHOLDER

Amount due to a shareholder

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

Loan from a shareholder

On June 30, 2012, an agreement entered between Mr. Wong and the Company, whereby a loan of HK$500,000,000 ("Loan A") is provided by Mr. Wong. This shareholder loan is interest-free, unsecured and repayable after one year from the borrowing date. The fair value of this loan from a shareholder is determined based on the effective interest rate of 6.82% per annum at initial recognition. The difference between the principal amount of Loan A of HK$500,000,000 and the fair value of Loan A determined on June 30, 2012 amounted to approximately HK$34,099,000, which has been credited to equity as deemed contribution from a shareholder.

Pursuant to an agreement entered between Mr. Wong and the Company on December 31, 2012, Mr. Wong agreed not to request settlement within one year from the end of the reporting period of Loan A, and other loan and advances previously provided, of total principal of HK$1,200,000,000 ("Loan B"). Loan B was interest-free, unsecured and repayable after one year from the borrowing date, i.e. January 1, 2014. The fair value of Loan B was determined based on the effective interest rate of 12.00% per annum at initial recognition. The difference of approximately HK$126,950,000 between the carrying amounts of Loan B and the fair value of Loan B determined on December 31, 2012 had been credited to equity as deemed contribution from a shareholder.

23. AMOUNT DUE TO AND LOAN FROM A SHAREHOLDER — continued

Loan from a shareholder — continued

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

In November 2013, the Company partially settled Loan B, amounting to approximately HK$318,600,000.

During the year, effective interest expense of approximately HK$144,000,000 (2012: HK$17,049,000) is capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development of sales.

24. BORROWINGS

	2013 **HK$'000**	2012 HK$'000
Bank borrowings	**2,315,798**	3,093,480
Other borrowings	**1,426,807**	631,369
	3,742,605	3,724,849
Carrying amounts of the borrowings repayable based on contractual term#:		
Within one year	**1,341,546**	3,147,668
More than one year, but not exceeding two years	**1,909,565**	577,181
More than two years, but not exceeding five years	**491,494**	—
	3,742,605	3,724,849
Less: Amount due within one year shown under current liabilities	**(1,341,546)**	(3,147,668)
Amount shown under non-current liabilities	**2,401,059**	577,181
Secured (Note)	**3,742,605**	3,662,706
Unsecured	**—**	62,143
	3,742,605	3,724,849

As at December 31, 2013, bank borrowings of approximately HK$411,107,000 (2012: HK$385,285,000) with a "repayable on demand" clause are included in the "on demand or within one year" time band.

\# The amounts due are based on scheduled repayment dates set out in the loan agreements.

24. BORROWINGS — continued

The Group's borrowings that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2013 HK$'000	2012 HK$'000
US$	—	1,075,620

Note: As at December 31, 2013 and 2012, the secured borrowings were secured by the shares of certain subsidiaries of the Company in the PRC.

Bank borrowings

At December 31, 2013, the Group had a secured fixed-rate bank borrowing amounting to approximately HK$321,403,000 (2012: nil) with a "repayable on demand" clause is included in the "on demand or within one year" time band.

	2013 HK$'000	2012 HK$'000
Carrying amounts of variable-rate bank borrowings repayable based on contractual term#:		
Within one year	104,976	3,013,440
More than one year, but not exceeding two years	1,397,925	80,040
More than two years, but not exceeding five years	491,494	—
	1,994,395	3,093,480
Less: Amount due within one year shown under current liabilities	(104,976)	(3,013,440)
Amount shown under non-current liabilities	1,889,419	80,040
Secured	1,994,395	3,031,337
Unsecured	—	62,143
	1,994,395	3,093,480

The amounts due are based on scheduled repayment dates set out in the loan arrangements.

24. BORROWINGS — continued

Bank borrowings — continued

The interest rates of the Group's variable-rate bank borrowings are based on base rate fixed by the PBOC or LIBOR plus a premium. Details are as follows:

	2013 HK$'000	2012 HK$'000
Base rate fixed by PBOC plus a premium:		
Carrying amounts repayable:		
Within one year	**104,976**	1,937,820
More than one year, but not exceeding two years	**1,397,925**	80,040
More than two years, but not exceeding five years	**491,494**	—
LIBOR plus a premium:		
Carrying amounts repayable:		
Within one year	**—**	1,075,620

The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2013	2012
Effective interest rate:		
Fixed-rate bank borrowing	**9.00%**	—
Variable-rate bank borrowings	**4.70% to 8.61%**	4.89% to 8.40%

Other borrowings

	2013 HK$'000	2012 HK$'000
Carrying amount of the fixed-rate other borrowings repayable based on contractual term#:		
Within one year	**915,167**	134,228
More than one year, but not exceeding two years	**511,640**	497,141
	1,426,807	631,369
Less: Amount due within one year shown under current liabilities	**(915,167)**	(134,228)
Amount shown under non-current liabilities	**511,640**	497,141

The amounts due are based on scheduled repayment dates set out in the loan agreements.

The other borrowings are secured and carrying at fixed interest rate ranging from 6.49% to 36.00% (2012: 12.00% to 36.00%) per annum. The weighted average rate is 12.14% (2012: 12.28%) per annum.

25. 9.125% 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 year is calculated by applying an effective interest rate of approximately 10.85% (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.

At any time before May 4, 2011, the Company may redeem the notes, in whole or in part, at a redemption price equal to 100% of their principal amount plus a premium and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to May 4, 2010, the Company may redeem up to 35% of the principal amount of the notes using net cash proceeds from certain equity offerings at a redemption price of 109.125% of the principal amount of the notes plus accrued and unpaid interest, if any, to the redemption date.

On or after May 4, 2011, the Company may, at its option, redeem all or part of the notes at the redemption prices equals to the percentage of the principal amount set forth below plus accrued and unpaid interest to the redemption date if redeemed during the 12-month period commencing on May 4 of the years indicated below:

12-month period commencing in the year	**Percentage**
2011	104.56250%
2012	102.28125%
2013 and thereafter	100.00000%

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

26. 13.5% FIXED-RATE SENIOR NOTES

On October 8, 2013 and October 22, 2013, the Company issued approximately US$150 million (approximately HK$1,170,000,000) and US$100 million (approximately HK$780,000,000) respectively in aggregate principal amount of the fixed-rate senior notes which contain two components, liability and early redemption options.

The notes bear interest at a fixed rate of 13.50% per annum. The interest charged for the year is calculated by applying an effective interest rate of approximately 13.67% per annum. Interest on the notes is payable on April 16 and October 16 of each year. The notes will mature on October 16, 2018. The notes are guaranteed by certain of the Company's subsidiaries.

At any time before October 16, 2016, the Company may redeem the notes, in whole or in part, at redemption price equal to 100% of their principal amount plus a premium and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to October 16, 2016, the Company may redeem up to 35% of the principal amount of the notes with the net cash proceeds of one or more equity offerings at a redemption price of 113.50% of the principal amount of the notes plus accrued and unpaid interest, if any, to the redemption date.

On or after October 16, 2016, the Company may, at its option, redeem all or part of the notes at the redemption prices equals to the percentage of the principal amount set forth below plus accrued and unpaid interest to the redemption date if redeemed during the 12-month period commencing on October 16 of the years indicated below:

12-month period commencing in the year	**Percentage**
2016	106.750%
2017	103.375%
2018	100.000%

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

The carrying amounts of 13.5% fixed-rate senior notes is analysed as follows:

	2013 **HK$'000**	2012 HK$'000
Current portion (Note)	**55,575**	—
Non-current portion	**1,898,802**	—
	1,954,377	—

Note: The current portion of 13.5% fixed-rate senior notes represent interest portion of the notes to be repaid within twelve months from the end of the reporting period.

27. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE

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 loan note is denominated in HK$ and contain two components, liabilities 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 the conversion option derivatives at end of each reporting period is calculated using the binomial option pricing model by an independent valuer, Asset Appraisal Limited. The inputs into the model are as follows:

	At date of issue	At December 31, 2012	**At December 31, 2013**
Spot price (HK$)	2.35	2.44	**1.98**
Exercise price (HK$)	2.42	2.42	**2.42**
Risk-free interest rate	0.89%	0.36%	**1.26%**
Discount rate	19.53%	16.19%	**19.50%**
Volatility	40.998%	30.319%	**37.872%**
Dividend yield	0%	0%	**0%**
Conversion period start date (Note)	December 14, 2013	December 14, 2013	**December 14, 2013**

27. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE — continued

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 entered into with 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. At December 31, 2012, management assumed 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 as stated in the loan agreement. As at December 31, 2013, settlement was made. Accordingly, such option is exercisable.

Expected volatility of the 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 highly 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 year is set out as below:

	Liabilities component	Conversion option derivative	Total
	HK$'000	HK$'000	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	53,322	—	53,322
Gain arising on changes in fair value	—	(63,073)	(63,073)
As at December 31, 2013	323,645	181,771	505,416
Analysis for reporting purpose as:			
Current portion	50,000	—	50,000
Non-current portion	273,645	181,771	455,416
As at December 31, 2013	323,645	181,771	505,416

Note: The current portion of liability component represents interest portion of the convertible note to be paid within twelve months from the end of the reporting period.

28. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognized and movements thereon during the current and prior years:

	Fair value adjustment of investment properties HK$'000	Other temporary differences HK$'000	Total HK$'000
At January 1, 2012	10,881,196	72,319	10,953,515
Exchange adjustments	181,670	1,168	182,838
Charge to profit or loss (note 10)	519,250	—	519,250
At December 31, 2012	11,582,116	73,487	11,655,603
Exchange adjustments	341,503	2,143	343,646
Charge to profit or loss (note 10)	260,676	—	260,676
At December 31, 2013	12,184,295	75,630	12,259,925

Other temporary differences mainly represent the temporary differences arising from the construction costs capitalized in investment properties under construction, properties under development for sales and properties held for sales which were deductible for tax purpose in the year those costs incurred.

The Group had no significant unprovided deferred tax during the two years ended December 31, 2013 and 2012 and at the end of the reporting periods.

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 consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately HK$19,985,916,000 (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.

29. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.1 each		
Authorized:		
At January 1, 2012, December 31, 2012 and December 31, 2013	5,000,000,000	500,000
Issued and fully paid:		
At January 1, 2012, December 31, 2012 and December 31, 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 year.

30. CONTINGENT LIABILITIES

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

Guarantee

	2013 HK$'000	2012 HK$'000
Guarantees given to banks in connection with credit facilities granted to the purchasers of the Group's properties (Note)	**1,655,422**	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 consolidated statement of financial position.

30. CONTINGENT LIABILITIES — continued

Legal disputes

As at December 31, 2013, the Group is subjected to several legal claims in relation to disputes under construction contracts in respect of its various property development projects which arose during the normal course of business. In these legal proceedings, the Group has received court orders to restrict the disposition of certain properties under development for sales and properties held for sale in an aggregate amount of approximately HK$153 million and the withdrawal of bank deposits of approximately HK$3 million as at December 31, 2013. 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 countered 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 that are still in preliminary stage and hence the final outcome is unable to be determined at this stage amounted to approximately HK$124 million (2012: HK$360 million) in aggregate. Accordingly no provision is required to be made in the consolidated financial statements. During current year 2013, the Group has either settled the claims or provided the construction costs accruals or provision in these consolidated financial statements, resulting the decrease of the outstanding amount of legal claims. 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.

31. OTHER COMMITMENTS

	2013	2012
	HK$'000	HK$'000
Construction commitment contracted for but not provided	**1,076,470**	1,028,517

32. 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:

	2013 HK$'000	2012 HK$'000
Within one year	**988**	5,386
In the second to fifth year inclusive	**657**	1,599
	1,645	6,985

Over 90% (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 of the northern portion of 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 first half of 2014 and the Group is negotiating with potential tenants since January 2014. The properties generated annual rental yields of average 0.24% (2012: 0.60%) for the year ended December 31, 2013. Leased properties have committed tenants from one to three (2012: one to four) years.

As lessee

Minimum lease payments paid under operating leases during the year:

	2013 HK$'000	2012 HK$'000
Premises	**4,113**	4,113

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

	2013 HK$'000	2012 HK$'000
Within one year	**2,656**	4,441
In the second to fifth year inclusive	**—**	2,399
	2,656	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 (2012: three) years.

33. RETIREMENT BENEFITS PLANS

The Group operates a MPF Scheme under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made by both the Group and the employees based on 5% of the employees' salaries (capped at HK$25,000) as effective from June 1, 2012 and are charged to profit or loss 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.

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The total contributions incurred in this connection for the year was approximately HK$6,011,000 (2012: HK$5,617,000).

34. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was conditionally adopted pursuant to a resolution passed on February 5, 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Scheme will expire on February 5, 2017.

Under the Scheme, the board of directors of the Company may grant options to directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme is not permitted to exceed 180,000,000 shares, being 10% of the shares of the Company in issue as at the date on which the shares of the Company are listed on the Stock Exchange, which can be refreshed according to the Scheme. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the Scheme shall not exceed 30% of the issued share capital of the Company from time to time.

34. SHARE OPTION SCHEME — continued

The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders in accordance with the Scheme. Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the shares in the Company issued and to be issued upon exercise of all options to such person in the 12-month period up to and including the date of grant in excess of 0.1% of the shares of the Company in issue and with a value (based on the closing price of the shares of the Company at the offer date of each offer) in excess of HK$5,000,000, such grant of options must be approved in advance by the Company's shareholders in accordance with the Scheme.

An option may be exercised at any time during the period to be determined and notified by the directors to the grantee and in the absence of such determination, from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses and ten years from the date of offer of that option. A consideration of HK$1 is payable upon acceptance of the offer.

The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the share; the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

2011 Share options

Pursuant to the announcement dated January 17, 2011 ("Grant Date 1"), 20,000,000 options ("2011 Share Options") to subscribe for the Company's ordinary shares of HK$0.10 each with the exercise price of HK$2.67 each were granted to certain eligible participants (the "Grantees 1"). The Grantees 1 are consultants which are responsible for the investor relations of the Group. None of the Grantees 1 is a director, chief executive or substantial shareholder of the Company, or any of their respective associates. The option is exercisable from January 17, 2012 to March 22, 2013. The closing price of the Company's share at Grant Date 1 was HK$2.64. These share options were granted to the consultants for rendering consultancy services in respect of seeking potential investors to acquire a certain number of the Company's shares on or before January 16, 2013 ("Target 1"). The exercise of the share options shall be conditional upon the Target 1 being achieved within the period from January 17, 2011 to January 16, 2013. Since the above Target could not be achieved, the 2011 Share Options were lapsed.

Management determines that the fair value of the 2011 Share Options granted is approximately HK$15,850,000. During the year ended December 31, 2013, share-based payment expenses of approximately HK$347,000 (2012: HK$7,936,000) is recognized in the profit or loss.

34. SHARE OPTION SCHEME — continued

2013 Share options

Pursuant to the announcement dated July 3, 2013 ("Grant Date 2"), 36,000,000 options ("2013 Share Options") to subscribe for the Company's ordinary shares of HK$0.10 each with the exercise price of HK$1.93 each were granted to certain eligible participants who are the consultants for the investor relations of the Group (the "Grantees 2"). The 2013 Share Options are granted to the consultants for rendering consultancy services in respect of seeking potential investors to acquire a certain number of the Company's share on or before July 2, 2015 ("Target 2") 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 2 have fulfilled the conditions as (1) the grantees being under continuous engagement of the Company for the period from July 3, 2013 to July 2, 2015 ("Service Period"); and (2) the Target 2 being achieved within the Service Period. Precedent of vesting and the remaining 50% will vest one calendar year thereafter. The closing price of the Company's share at Grant Date 2 was HK$1.88.

The fair values of share options granted by the Company were determined by using Black-Scholes option pricing model. The model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The inputs into the model are as follows:

Grant date	July 3, 2013
Share price at the date of grant	HK$1.88
Exercise price	HK$1.93
Expected volatility	32.65%
Expected life	2 years
Risk-free interest rate	0.35%
Expected dividend yield	0%

Expected volatility was determined by using historical volatility of the Group at grant date. The expected life used in the method has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The estimated fair value of the 2013 Share Options granted is approximately HK$11,820,000, of which the Group recognized HK$2,947,000 as share option expense in the consolidated statement of profit or loss and other comprehensive income during the year ended December 31, 2013.

34. SHARE OPTION SCHEME — continued

2013 Share options — continued

The following table discloses movements of the Company's share options during the year:

	Number of options
Outstanding at January 1, 2012 and December 31, 2012	20,000,000
Lapsed during the year	(20,000,000)
Granted during the year	36,000,000
Outstanding at December 31, 2013	36,000,000
Exercisable at December 31, 2012 and December 31, 2013	—

The Group recognized the total expense of HK$3,294,000 for the year ended December 31, 2013 (2012: HK$7,936,000) in relation to the share options granted.

35. RELATED PARTY TRANSACTIONS

Apart from the related party transactions as disclosed in notes 23, 26 and 27, the Group had the following transactions during the year:

Nature of transactions

	2013	2012
	HK$'000	HK$'000
Office premises expenses (Note)	**37**	42

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 Pacific Concord Holding Limited ("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.

Compensation of key management personnel

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

	2013	2012
	HK$'000	HK$'000
Short-term benefits	**3,171**	1,535

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.

36. LIST OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at December 31, 2013 and 2012 are as follows:

Name of subsidiaries	Country of establishment	Equity interest attributable to the Group as at December 31, 2013	2012	Issued and fully paid registered and paid-up capital as at December 31, 2013 and 2012	Principal activities
上海靜安協和房地產有限公司 Shanghai Jingan — Concord Real Estate Co., Ltd.#	PRC	**100%**	100%	US$68,000,000	Property development and investment
上海閔行協和房地產經營有限公司 Shanghai Minhang Concord Property Development Co., Ltd.#	PRC	**100%**	100%	US$99,600,000	Property development and investment
上海盈多利物業管理有限公司 Shanghai Yingduoli Property Management Co., Ltd.##	PRC	**100%**	100%	RMB500,000	Property management service
重慶茵威房地產有限公司 Chongqing Ace Blossom Real Estate Co., Ltd.#	PRC	**100%**	100%	US$50,000,000	Property development and investment
重慶半山一號房地產有限公司 Chongqing Mid-Levels No. 1 Real Estate Co., Ltd.#	PRC	**100%**	100%	US$50,000,000	Property development and investment
重慶山頂一號房地產有限公司 Chongqing Peak No. 1 Real Estate Co., Ltd.#	PRC	**100%**	100%	US$50,000,000	Property development and investment
重慶江灣房地產有限公司 Chongqing Riverside Real Estate Co., Ltd.#	PRC	**100%**	100%	US$50,000,000	Property development and investment
重慶兩江房地產有限公司 Chongqing Yangtze-Jialing River Real Estate Co., Ltd.#	PRC	**100%**	100%	US$50,000,000	Property development and investment
重慶正天投資有限公司 Chongqing Zhengtian Investment Ltd.##	PRC	**100%**	100%	RMB51,000,000	Property development and investment

\# Wholly foreign owned enterprises registered in the PRC.

\## A limited liability company registered in the PRC.

The English name stated above is for identification purpose only.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

37. MAJOR NON-CASH TRANSACTION

During the year ended December 31, 2012, the Group issued the convertible note of HK$500,000,000, which 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. Further details of the issuance of the convertible note are set out in note 27.

FINANCIAL SUMMARY

RESULTS

	For the year ended December 31,				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	1,286,850	207,262	983,785	692,760	**1,045,402**
Profit before tax	12,776,718	6,033,037	2,625,899	2,298,654	**1,468,509**
Income tax expense	(3,167,397)	(1,555,205)	(626,460)	(541,915)	**(336,943)**
Profit for the year attributable to owners of the Company	9,609,321	4,477,832	1,999,439	1,756,739	**1,131,566**
Earnings per share					
Basic	HK$5.31	HK$2.48	HK$1.11	HK$0.97	**HK$0.63**
Diluted	N/A	N/A	HK$1.11	HK$0.86	**HK$0.53**

ASSETS AND LIABILITIES

	As at December 31,				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	42,416,016	52,475,396	58,067,189	60,683,163	**64,712,129**
Total liabilities	(13,880,024)	(18,189,376)	(20,332,421)	(20,373,550)	**(21,979,850)**
	28,535,992	34,286,020	37,734,768	40,309,613	**42,732,279**
Equity attributable to owners of the Company	28,535,992	34,286,020	37,734,768	40,309,613	**42,732,279**

Properties held by the Group as at December 31, 2013 are as follows:

Location	**Type** (Notes)	**Gross floor area** (Square meters)	**Effective % held**	**Stage of completion**	**Anticipated completion**
Portion of Phases 1, 2, 3, 4A and 4B of Shanghai Cannes No. 958 Xin Song Road Minhang District Shanghai The PRC	R & C	131,402	100	Completed	N/A
Commercial Street and Service Apartment located at No. 958 Xin Song Road Minhang District Shanghai The PRC	R & C	293,815	100	Under planning	2015–2016
Portion of Phase 1 of Shanghai Concord City (Commercial Street, Hotel, Office Premise and Service Apartment) located at West of Nanjing Road Jing'an District Shanghai The PRC	R & C	51,545	100	Completed	N/A
The whole of Phase 2 of Shanghai Concord City (Commercial Street, Hotel, Office Premise and Service Apartment) located at West of Nanjing Road Jing'an District Shanghai The PRC	R & C	338,074	100	Construction in progress	2014–2017
Huashan Building West Nanjing Road Jing'an District Shanghai The PRC	C	7,340	100	Renovation in progress	2015

PARTICULARS OF MAJOR PROPERTIES

At December 31, 2013

Location	Type (Notes)	Gross floor area (Square meters)	Effective % held	Stage of completion	Anticipated completion
Chongqing International Commerce Centre located at Nan Bin Road Chongqing The PRC	R & C	1,467,000	100	Under planning	2014–2017
Portion of Commercial Street Manhattan Luxury Residence and Beverly Hills located at Lijiu Road Chongqing The PRC	R & C	341,980	100	Construction in progress	2012–2014
Chongqing Manhattan City Villa Zone located at Lijiu Road Chongqing The PRC	R	456,940	100	Construction in progress	2012–2015
Chongqing Manhattan City European Type House Zone located at Lijiu Road Chongqing The PRC	R	477,995	100	Under planning	2015–2016
Chongqing Concord City located at Jiefangbei Chongqing The PRC	R & C	408,927	100	Under planning	2016–2018
Golden Tower located at Lijiu Road Chongqing The PRC	R & C	571,992	100	Under planning	2017

Notes:

Types of properties: R — Residential, C — Commercial

N/A: Not applicable