China Properties Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1838

Interim Report 2014

power vision

CONTENTS

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 Merchants Bank
China Minsheng Bank
Industrial and Commercial Bank of China

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPANY'S WEBSITE

cpg-group.com

BUSINESS REVIEW AND OUTLOOK

The quantitative easing ("QE") of the United States (the "US") may soon become history. How should the US Federal Reserve deal with its record-breaking holding of US$4.4 trillion in US dollar bonds? As most of these bonds are US treasury bonds due in 2016, it means that three years later, the US Department of the Treasury will need to raise approximately US$700 billion in addition. As such, the US will be restrained from speeding up rate hikes. On the other hand, if the global asset bubble caused by the QE bursts, its ripple effect on the Chinese economy will be beyond questions. However, in the unlikely event that the market is unintentionally intervened by human forces, it would be a good news that we could avert the impact.

Although "the great fall of China" often rumored by the western scholars never realizes, having two strings to one's bow is always good. Therefore, even though China Properties Group possesses 5 commercial streets and has been growing unexpectedly for several years, it spared no efforts to accumulate its existing pool of sustainable quality assets of both available-for-sale or leased properties and constructions in progress, with the aims of overcoming all challenges and surviving any possible market collapse ahead. However, what concerns us now is how to utilize these assets appropriately amid the future volatile market without committing any grave mistake so as to achieve rapid growth in our owner's earnings and enterprise value. China Properties Group's solution is two-way: on the one hand, it will improve its management model to accelerate the progress of its projects and sell its available-for-sale properties amounting to approximately RMB100 billion within 3 to 4 years, so as to retrieve its cash as much as it can for any golden opportunity that may only happen once in a blue moon amid the eminent crisis; on the other hand, it will complete the extensive constructions of the 5 commercial streets in hand as soon as possible and then make a success of their operations as their huge annual rental income could be the most reliable engine of the Group's healthy and sustainable growth.

Of course, most of our commercial streets locate in the prime areas of first-tier cities in China and are one of a kind. By the same token, the difficulties in their approval, development, operation and construction are also phenomenal. However, nothing ventured, nothing gained. Four obstacles faced by the Group were: (i) the exceptionally severe construction requirements, standards and conditions of "Number One Commercial Streets" at the hearts of first-tier cities; (ii) the competitors of these "Number One Commercial Streets" in first-tier cities, namely the traditional prosperous "High Streets" across the globe, such as Fifth Avenue in New York, Avenue des Champs-Élysées in Paris and Oxford Street in London; (iii) the emerging online shopping trend; and (iv) the extraordinarily long development time of these "Number One Commercial Streets" spanning from government approval to completion, which has already past in our case. To achieve success, the Group has employed the top consultants of the world, such as Norman Foster, ARQ, Jones Lang LaSalle and Savills, to create world-renowned youthful, trendy and modern eye-opening "Theme Park" shopping areas at these "Number One Commercial Streets" in order to attract shoppers from traditional shopping malls and online platforms to enjoy their spending at these visionary "Number One Commercial Streets". This ground-breaking retail business model will lead the market of real-world commercial streets across the globe and quickly boost our enterprise value.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ENVIRONMENT

Overview of the Mainland Property Market

China's GDP in the first half of 2014 was recorded at a growth of 7.4% as compared to the same period in 2013.

Residential property prices in China grew sharply in 2013. Marching towards 2014 till Q2 2014, the residential market has shown signs of slowing down, the transaction volume for residential units fell and upgraders remained the dominant driver in the residential sector. Following Premier Li Keqiang's speech in the Second Session of the 12th National People's Congress in March 2014, the central government planned to establish a long-term mechanism to facilitate the healthy growth of residential market and allowed some cities, like Hangzhou, Wuhan and Xiamen, to modify their housing policies. As such, those cities had started to loosen the restrictions in the hope of getting the residential market back into shape.

Demand for retail spaces in most cities remained strong in the first half of 2014. Key cities in prime areas recorded stable rental growth rate. Global F&B and fashion retailers continue to increase their present in China by taking up more stores in Tier 2 and Tier 3 cities. For instance, the newly opened Chengdu International Finance Square ("Chengdu IFS") had attracted numerous international brands to open their flagship stores. The luxury department store, Lane Crawford, also set foot at Chengdu IFS in March 2014. It became the first international multi-brand fashion and lifestyle store in Western China. As consumers in China are getting more affluent, it is anticipated the retail market would grow stably.

The main theme for the office market in China in the first half of 2014 was dominated by strong supply situation. By Q2 2014, total new office supply amounted to approximately 1.31 million square metres in China. About 40% of the total new supply was located in Western China. The main driver for demand of office space during the first half of 2014 was domestic companies as multi-national companies remained cautious about expansion. Competitive rents in traditional CDB areas had driven offices to relocate to new CBD areas.

Overview of the Shanghai's Property Market

Total GDP of Shanghai in the first half of 2014 grew by 7.1% the first half of 2013.

Following the cooling measures that were put in place last year, the residential market in Shanghai was cooled down until Q1 2014. But the market started to pick up its upward trend under the rigid demand in Q2 2014. The number of residential units transacted during Q2 2014 was 34,151, recorded an increase of 1.1% q-o-q. The average transacted unit price and transacted volume shared a similar pattern as average transacted unit price went up 1.8% in Q2 2014 as compare to Q1 2014.

The Shanghai retail market is expected to add roughly 1 million square metres of new supply every year between 2014 and 2016. Many of these new retail developments are located in decentralized markets or Pudong New Area. First floor rental rates of shopping malls in prime areas remained stable between Q1 2014 and Q2 2014, with an increase of 0.1% q-o-q in prime areas. As e-commerce has gained popularity in recent years, landlords of shopping malls are attempting to attract consumers back to traditional shopping malls with social networking channels.

As of Q2 2014, a total of approximately 222,000 square metres of Grade A office spaces had entered into the market. Of which, four office buildings were located in Puxi and one office building was located at Pudong. Driven by strong demand and limited supply of Grade A office spaces in Pudong, vacancy rates remained low at Lujiazui and Zhuyuan, resulting in an increase of rental rates. On the other hand, due to the ample supply of Grade A office spaces in Puxi, the vacancy rates and rental rates were remained stable.

Overview of the Chongqing's Property Market

Chongqing's GDP at the first half of 2014 was recorded an increase of 10.9% y-o-y.

Chongqing's residential market showed a stable growth in both transaction volume and price level in Q2 2014. During Q2 2014 the number of units transacted and the average transacted unit price had shown an increase to 516,168 units and RMB7,145 per square metre, representing a q-o-q growth of 9.0% and 2.6% respectively. The residential property market is expected to remain stable during the rest of 2014.

The strong demand of retail space in Chongqing during 2013 had continued towards Q2 2014. Despite the anticipated supply to enter into the market between the second half of 2014 till the end of 2016, rents are still trending upwards due to the buoyant demand and the positive prospects for the retail market. In the five traditional major retail areas (Jiefangbei, Guanyinqiao, Yangjiaping, Shapingba and Nanping), the average asking rent of first floor retail space is RMB770 per square metre per month in Q2 2014.

The office property market maintained the growth momentum towards the first half of 2014. The demand from international companies to set up their branch offices in Chongqing remained strong. As most of the international companies still preferred to be located at Jiefangbei CBD, the rental rates there continued to command a premium and maintain a relatively strong growth.

Outlook of the Mainland Property Market

With the national residential transaction volume registered in a falling trend since the beginning of the year, there have been certain adjustments done by some cities to the home purchase restrictions according to their own economic fundamentals. With the introduction of these relaxations, the residential property market in those cities may see a rebound. For example, Hangzhou and Foshan had already seen a pick up in the number of units transacted.

Retail landscape in China is undergoing a transformation with the emergence of e-commerce as well as increase penetration of both local and international brands in newly opened malls across China. New supply of retail spaces is expected to remain high for the rest of 2014, most of it coming from Tier 2 cities. Existing malls' landlords have to be more creative to draw crowds to their establishments with innovative marketing ideas in order to fight off stiff competitions.

New or existing multinational companies as well as home-grown business entities will remain supportive in the office market. Substantial new office supply will be introduced in Shanghai and Shenzhen in Tier 1 city category and Chengdu in the Tier 2 city category in the coming two years. With more and more new buildings with up to date facilities being competed in these cities, rental growth is anticipated to become more moderate.

FINANCIAL REVIEW

The Group's profit attributable to equity holders for the first half of 2014 amounted to HK$212 million (six months ended June 30, 2013: HK$677 million), a decrease of 68% when compared to the same period of 2013. The profit before taxation, excluding change in fair value of investment properties and conversion option derivative, amounted to HK$16 million (six months ended June 30, 2013: profit of HK$260 million).

Earnings per share were HK$0.12 (six months ended June 30, 2013: HK$0.37), a decrease of 68%, in line with less residential properties sales & delivery recognised and the mild rate of investment property appreciation during the period.

Total assets decreased to HK$64,620 million from HK$64,712 million as at December 31, 2013, due to the depreciation of Renminbi against Hong Kong dollars from December 31, 2013. Net assets, the equivalent of shareholders' funds, similarly reduced to HK$41,844 million (December 31, 2013: HK$42,732 million). In terms of value per share, net assets value per share is HK$23.13 as at the statement of financial position date, as compared to HK$23.62 as at December 31, 2013.

The Group's revenue of HK$253 million (six months ended June 30, 2013: HK$701 million) decreased by 64% when compared with the corresponding period last year which was mainly resulted from the decrease in revenue from sales of residential properties of Chongqing Manhattan City.

The revenue from sales of residential properties amounted to HK$248 million (six months ended June 30, 2013: HK$692 million), decreased by 65% as compared with the corresponding period last year. The Group delivered a gross floor area ("GFA") of approximately 415,370 sq. ft. in the six months ended June 30, 2014 as compared to 1,412,481 sq. ft. in the corresponding period last year.

Gross profit margin for sales of development properties was 52% (six months ended June 30, 2013: 46%).

Income from property leasing decreased by 60% to HK$2 million (six months ended June 30, 2013: HK$5 million). The decrease was attributable to the termination of certain tenancies for the future upgrade construction of the mall development. Property management income maintained at similar level of HK$4 million (six months ended June 30, 2013: HK$4 million).

The construction of Chongqing Manhattan City, Lijiu Road with total GFA of approximately 21 million sq. ft. continues. During the six months ended June 30, 2014, the Group generated income of HK$237 million from sales of residential properties of Chongqing Manhattan City Phase I and Phase II.

Deposits received on sales of properties decreased to HK$94 million from HK$281 million as at December 31, 2013 due to the recognition of revenue upon delivery.

Other income, gains and losses with losses were HK$28 million (six months ended June 30, 2013: gains of HK$15 million). The change is mainly due to the net exchange losses of HK$28 million instead of net exchange gain of HK$13 million for six months ended June 30, 2013.

During the period under review, selling expenses were HK$13 million (six months ended June 30, 2013: HK$18 million), a decrease of 32%. It was resulted from less advertising and promotion expenses incurred and which was in line with the change in sales revenue of the residential properties for the period.

Administrative expenses during the first half of 2014 were HK$70 million (six months ended June 30, 2013: HK$55 million) which increased by 27% compared to the same period of 2013. The increase was mainly attributed to increase in land and property related tax rates in China, amortisation of share option issued and one-off professional expenses.

Finance costs represent mainly interest expenses and other borrowing costs in relation to bank and other borrowings, effective interest expense of convertible note, loan from a shareholder and the fixed rate senior notes (the "Note"). Since all finance costs equivalent to HK$469 million (six months ended June 30, 2013: HK$340 million) were wholly capitalized on various projects, the finance costs charged to profit and loss were nil (six months ended June 30, 2013: Nil).

The changes in fair value of investment properties were HK$247 million (six months ended June 30, 2013: HK$547 million). Although the transaction volume of the property market was shrinking with the launch of new real estate tightening measures in recent years, the property price remained steady during the period because the underlying demand remained strong. On the other hand, the central government's blueprint that advocates Shanghai to become an international financial hub in 2020 also benefited local businesses including the retail and office property markets. Combining these factors, the valuation of investment properties in the first half of 2014 is still appreciating. The changes in fair value of investment properties in Shanghai experienced an increase of HK$180 million (June 30, 2013: HK$276 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$67 million (June 30, 2013: HK$271 million).

Income tax expense was HK$85 million (six months ended June 30, 2013: HK$170 million), a decrease of 50%. The Group's effective income tax rate was 28.5% (six months ended June 30, 2013: 20.1%). The drop in income tax expenses was mainly resulted from lower revenue and relatively more LAT reported for the period.

LIQUIDITY AND FINANCING

The Group monitors its liquidity requirements on a short to medium term basis and arranges refinancing of the Group's borrowing when appropriate. During the period, the Group raised net new bank and other loans totaling of approximately HK$1,968 million (six months ended June 30, 2013: HK$695 million). In addition, the Group obtained additional advance from a shareholder of approximately HK$312 million (six months ended June 30, 2013: HK$117 million).

As at the statement of financial position date, the Group's Note, bank and other borrowings and amount due to/loan from a shareholder and convertible note amounted to approximately HK$1,956 million, HK$5,607 million, HK$1,251 million and HK$354 million respectively, and the Group's total borrowings were HK$9,168 million, an increase of HK$1,445 million when compared to December 31, 2013. HK$2,097 million is repayable within one year whilst the remaining is repayable in the second to fifth year inclusive.

The gearing ratio of the Group as at June 30, 2014 was 18% (as at December 31, 2013: 15%), determined as proportion of the Group's net borrowings (after deducting bank balances and bank deposits) to the shareholder's funds.

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

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

TREASURY POLICIES

As at the statement of financial position date, approximately 60% of the Group's borrowings were in RMB with the balance in US$ and HK$. The Group derives its revenue mainly in RMB. Bank balances are maintained mainly in HK$, US$ and RMB.

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

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

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

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

CHARGE ON ASSETS

As at the statement of financial position date, certain subsidiaries of the Group pledged assets with an aggregated carrying value of HK$49,214 million (December 31, 2013: HK$31,233 million) to secure bank loan facilities.

CONTINGENT LIABILITIES

As at the statement of financial position date, we guaranteed mortgage loans to purchasers of our properties in the aggregate outstanding principal amount of HK$756 million (December 31, 2013: HK$1,655 million). During the first half of 2014, there was no default case.

Legal disputes

As at June 30, 2014, 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 and the withdrawal of bank deposits in an aggregate amount of approximately HK$49 million and HK$3 million respectively as at June 30, 2014 (December 31, 2013: HK$153 million and HK$3 million respectively). 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 and internal legal counsel of the Group, 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 condensed consolidated financial statements. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

INTERIM DIVIDEND

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

EMPLOYEES AND REMUNERATION POLICY

As at June 30, 2014, the Group had approximately 343 employees (June 30, 2013: 379 employees) in Hong Kong and the PRC. There is no significant change in the Group's emolument policies.

ADDITIONAL INFORMATION REQUIRED UNDER LISTING RULES

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

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

As at June 30, 2014, the interests and/or short positions of the directors and chief executives and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

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

As at June 30, 2014, 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	1,563,411,570 shares	86.42%	*(i) & (ii)*

Note:

(i) Of these shareholding interests, 1,356,800,000 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 75% of the total issued share capital of the Company and thus being the holding company of the Company, Hillwealth is an associated corporation of the Company under the SFO. The entire issued share capital of Hillwealth is owned by Mr. Wong.

As at June 30, 2014, Mr. Wong was a director of Hillwealth, Concord China Land Holdings Limited and PCH, and Dr. Wang Shih Chang, George and Mr. Kwan Kai Cheong were also directors of PCH.

Save as disclosed herein, as at June 30, 2014, none of the directors or chief executives nor their associates had or deemed to have any interests or short positions in any shares or underlying shares or debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in "Directors' and Chief Executives' Interests in Shares and Underlying Shares and Debentures", the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued capital of the Company as at June 30, 2014 and as at the date of this report.

SHARE OPTION SCHEME

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.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the six months ended June 30, 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. The directors have confirmed that, following specific enquiry by the Company, they have complied with the required standards set out in Model Code during the six months ended June 30, 2014.

ADDITIONAL INFORMATION REQUIRED UNDER LISTING RULES

CORPORATE GOVERNANCE CODE

The Company has fully complied with all code provisions in the Corporate Governance Code ("CG Code") set out in Appendix 14 to the Listing Rules throughout the six months ended June 30, 2014.

AUDIT COMMITTEE

The Company has established the Audit Committee and has formulated its written terms of reference in accordance with the provisions set out in the CG Code. The Audit Committee comprises five Independent Non-executive Directors, namely Mr. Warren Talbot Beckwith (Chairman of the Audit Committee), Mr. Luk Koon Hoo, Mr. Garry Alides Willinge, Mr. Cheng Chaun Kwan, Michael and Mr. Wu Zhi Gao. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal controls procedures, review of the Group's financial information and review of the relationship with the external auditor of the Company. The Audit Committee and the external auditor, Messrs Deloitte Touche Tohmatsu, Certified Public Accountants, have reviewed the unaudited interim results of the Group for the six months ended June 30, 2014.

REMUNERATION COMMITTEE

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

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

APPRECIATION

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

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

Hong Kong, August 26, 2014

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF CHINA PROPERTIES GROUP LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Properties Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 38, which comprise the condensed consolidated statement of financial position as of June 30, 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
August 26, 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2014

	NOTES	Six months ended June 30, **2014** HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Revenue	3 & 4	**253,085**	700,791
Cost of sales		**(126,438)**	(382,887)
Gross profit		**126,647**	317,904
Other income, gains and losses	4	**(28,174)**	14,996
Selling expenses		**(12,529)**	(18,385)
Administrative expenses		**(70,213)**	(54,985)
Finance costs	5	**—**	—
Profit from operation before changes in fair value of investment properties and conversion option derivative		**15,731**	259,530
Changes in fair value of investment properties		**246,979**	547,127
Changes in fair value of conversion option derivative		**34,701**	41,152
Profit before tax		**297,411**	847,809
Income tax expense	6	**(84,953)**	(170,487)
Profit for the period attributable to owners of the Company	7	**212,458**	677,322
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**(1,103,833)**	639,254
Total comprehensive (expenses) income for the period attributable to owners of the Company		**(891,375)**	1,316,576
Earnings per share			
Basic (HK dollar)	8	**0.12**	0.37
Diluted (HK dollar)	8	**0.09**	0.32

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2014

	NOTES	June 30, 2014 HK$'000 (unaudited)	December 31, 2013 HK$'000 (audited)
Non-current Assets			
Property, plant and equipment		**420,149**	393,613
Prepaid lease payments		**163,970**	170,784
Investment properties	10	**57,658,323**	58,641,187
		58,242,442	59,205,584
Current Assets			
Properties under development for sales		**4,190,050**	3,954,146
Properties held for sales		**478,854**	477,013
Tax recoverable		**26,595**	23,148
Trade and other receivables, deposits and prepayments	11	**136,276**	177,814
Pledged bank deposits		**127,789**	101,142
Bank balances and cash		**1,417,746**	773,282
		6,377,310	5,506,545
Current Liabilities			
Deposits received on sales of properties		**94,402**	281,198
Construction costs accruals		**425,146**	595,174
Other payables and accruals		**98,446**	99,539
Amount due to a shareholder	19(i)	**369,525**	81,237
Tax payable		**832,984**	840,120
Borrowings — due within one year	12	**740,484**	1,341,546
9.125% fixed-rate senior notes	13	**—**	810,859
13.5% fixed-rate senior notes, current portion	13	**55,575**	55,575
Convertible note, current portion	14	**50,000**	50,000
Loan from a shareholder	19(ii)	**881,400**	809,400
		3,547,962	4,964,648
Net Current Assets		**2,829,348**	541,897
Total Assets less Current Liabilities		**61,071,790**	59,747,481
Non-current Liabilities			
Borrowings — due after one year	12	**4,866,912**	2,401,059
13.5% fixed rate senior notes, non-current portion	13	**1,900,641**	1,898,802
Convertible note, non-current portion	14	**303,867**	273,645
Conversion option derivative	14	**147,070**	181,771
Deferred tax liabilities		**12,009,465**	12,259,925
		19,227,955	17,015,202
Net Assets		**41,843,835**	42,732,279
Capital and Reserves			
Share capital	15	**180,907**	180,907
Share premium		**1,378,443**	1,378,443
Other reserves		**40,284,485**	41,172,929
Total Equity		**41,843,835**	42,732,279

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2014

		Attributable to owners of the Company										
		Share capital	**Share premium**	**Revaluation reserve**	**Special reserve**	**Other reserve**	**General reserve**	**Shareholder's contribution reserve**	**Share option reserve**	**Exchange reserve**	**Retained earnings**	**Total**
	NOTE	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
					(Note a)	(Note b)	(Note c)	(Note d)				
At January 1, 2013 (audited)		180,907	1,378,443	6,410	778,662	2,455,562	53,015	161,049	15,503	5,422,581	29,857,481	40,309,613
Profit for the period		—	—	—	—	—	—	—	—	—	677,322	677,322
Other comprehensive income for the period		—	—	—	—	—	—	—	—	639,254	—	639,254
Total comprehensive income for the period		—	—	—	—	—	—	—	—	639,254	677,322	1,316,576
Recognition of share-based payments		—	—	—	—	—	—	—	347	—	—	347
Deemed contribution		—	—	—	—	—	—	72,000	—	—	—	72,000
At June 30, 2013 (unaudited)		180,907	1,378,443	6,410	778,662	2,455,562	53,015	233,049	15,850	6,061,835	30,534,803	41,698,536
At January 1, 2014 (audited)		**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**
Profit for the period		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**212,458**	**212,458**
Other comprehensive expense for the period		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,103,833)**	**—**	**(1,103,833)**
Total comprehensive (expense) income for the period		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,103,833)**	**212,458**	**(891,375)**
Recognition of share-based payments		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,931**	**—**	**—**	**2,931**
At June 30, 2014 (unaudited)		**180,907**	**1,378,443**	**6,410**	**778,662**	**2,455,562**	**53,015**	**233,049**	**5,878**	**5,534,554**	**31,217,355**	**41,843,835**

Notes:

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

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2014

	Six months ended June 30,	
	2014	2013
	HK$'000	HK$'000
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	**(391,648)**	(304,922)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(2,673)**	(1,683)
Additions to investment properties	**(39,263)**	(83,210)
Proceeds received from disposal of investment properties	**10,950**	33,455
Withdrawal of pledged bank deposits	**97,938**	167,347
Placement of pledged bank deposits	**(125,222)**	(1,003)
Interest received	**2,153**	1,692
	(56,117)	116,598
NET CASH FROM FINANCING ACTIVITIES		
New borrowings raised	**3,202,953**	3,025,401
Repayment of borrowings	**(1,235,341)**	(2,329,970)
Advance from a shareholder	**311,512**	116,750
Repayment of 9.125% fixed-rate senior notes	**(800,319)**	—
Interest paid	**(376,715)**	(212,509)
Loan raised expenses	**—**	(28,469)
	1,102,090	571,203
NET INCREASE IN CASH AND CASH EQUIVALENTS	**654,325**	382,879
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**773,282**	48,771
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(9,861)**	2,612
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**1,417,746**	434,262

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2013.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC) — INT21	Levies

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

3. SEGMENT INFORMATION

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

For the six months ended June 30, 2014 (unaudited)

	Property development		Property investment			
	Shanghai HK$'000	**Chongqing HK$'000**	**Shanghai HK$'000**	**Chongqing HK$'000**	**Others HK$'000**	**Total HK$'000**
Revenue						
External sales	**7,941**	**239,819**	**1,570**	**—**	**3,755**	**253,085**
Segment profit (loss)	**5,520**	**116,951**	**181,136**	**94,838**	**(2,647)**	**395,798**
Other income, gains and losses						**(28,174)**
Unallocated expenses						**(70,213)**
Profit before tax						**297,411**

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

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

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, gains and losses and administrative expenses including share-based payments and certain directors' salaries. This is the measure reported to the Company's Chief Executive Officer, the Company's chief operating decision maker, for the purposes of resource allocation and performance assessment.

4. REVENUE AND OTHER INCOME AND GAINS

	Six months ended June 30, 2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Revenue		
Sales of residential properties	**247,760**	692,121
Property rental income	**1,570**	4,720
Property management income	**3,755**	3,950
	253,085	700,791
Other income, gains and losses		
Net exchange (loss) gain	**(28,309)**	13,216
Interest on bank deposits	**2,153**	1,692
Others	**(2,018)**	88
	(28,174)	14,996
Total revenue and other income and gains	**224,911**	715,787

5. FINANCE COSTS

	Six months ended June 30, 2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Interest on other borrowings wholly repayable within five years	**112,961**	101,995
Interest on bank borrowings wholly repayable within five years	**90,520**	102,469
Effective interest expense on fixed rate senior notes	**163,529**	38,296
Effective interest expense on convertible note	**30,222**	25,243
Effective interest expense on loan from a shareholder	**72,000**	72,000
Total finance costs	**469,232**	340,003
Less: Amount capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales	**(469,232)**	(340,003)
	—	—

Borrowing costs capitalized during the period which arose on the specific borrowings are approximately HK$157,700,000 (six months ended June 30, 2013: HK$140,804,000). Borrowing costs capitalized during the period which arose on the general borrowing pool of approximately HK$311,532,000 (six months ended June 30, 2013: HK$199,199,000) are calculated by applying a capitalization rate of 12.34% per annum (six months ended June 30, 2013: 10.12%) to expenditure on qualifying assets.

6. INCOME TAX EXPENSE

	Six months ended June 30,	
	2014	2013
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax:		
Enterprise income tax in the PRC	**20,858**	34,689
Land appreciation tax ("LAT") in the PRC	**4,043**	—
	24,901	34,689
Deferred tax:		
Current period	**60,052**	135,798
	84,953	170,487

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

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods in 2013 and 2014. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong for both 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 condensed consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately HK$20,218,339,000 (December 31, 2013: HK$19,985,916,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

7. PROFIT FOR THE PERIOD

	Six months ended June 30, 2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' emoluments	**780**	768
Other staff costs		
— Salaries and other benefits	**19,492**	18,326
— Contribution to retirement benefits schemes	**3,286**	3,109
Total staff costs	**23,558**	22,203
Less: Amount capitalized in investment properties under construction and properties under development for sales	**(9,088)**	(8,594)
	14,470	13,609
Share-based payments (included in administrative expenses)	**2,931**	347
Amortization of prepaid lease payments	**2,501**	2,371
Less: Amount capitalized in construction in progress under property, plant and equipment	**(2,473)**	(2,343)
	28	28
Depreciation of property, plant and equipment	**2,041**	2,070
Less: Amount capitalized in construction in progress under property, plant and equipment	**(845)**	(855)
	1,196	1,215
Cost of properties sold (included in cost of sales)	**119,918**	375,451
Compensation to purchasers to re-schedule delivery of properties	**1,722**	20,458
Gross rental income from investment properties	**(1,570)**	(4,720)
Less: Direct operating expenses incurred for investment properties that generated rental income during the period	**117**	356
	(1,453)	(4,364)

8. EARNINGS PER SHARE

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

	Six months ended June 30,	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	**212,458**	677,322
Effect of dilutive potential ordinary shares:		
— Changes in fair value of conversion option derivative	**(34,701)**	(41,152)
— Effective interest expense on convertible note (net of tax) (Note)	**—**	—
Earnings for the purpose of diluted earnings per share	**177,757**	636,170
	'000	'000
Number of shares		
Number of ordinary shares in issue during the period for the purpose of basic earnings per share	**1,809,077**	1,809,077
Effect of dilutive potential ordinary shares:		
— Convertible note	**206,612**	206,612
Number of ordinary shares for the purpose of diluted earnings per share	**2,015,689**	2,015,689

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

The computation of diluted earnings per share for both periods did not assume the exercise of the Company's share options because the exercise price of these options was higher than the average market price of the Company's shares for both periods.

9. DIVIDENDS

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

10. INVESTMENT PROPERTIES

	June 30, 2014 HK'000 (unaudited)	December 31, 2013 HK'000 (audited)
FAIR VALUE		
Completed properties held for rental purpose (Note a)	**3,195,973**	3,298,248
Leasehold land under and held for construction of properties for rental purpose and investment properties under construction	**49,885,573**	50,918,540
Sub-total	**53,081,546**	54,216,788
COST		
Investment properties under construction (Note b)	**4,576,777**	4,424,399
Total	**57,658,323**	58,641,187

Notes:

(a) As at June 30, 2014, 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$2,582,109,000 (December 31, 2013: HK$2,650,448,000); of which over 90% (December 31, 2013: 90%) 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 reporting period, the amounts are carried at cost until either the fair value becomes reliably measurable 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 executive directors of the Company, who are supported by the General Manager (Corporate Accounting) of the Company, determine the appropriate valuation techniques and inputs for fair value measurements.

The fair values of certain of the Group's investment properties at June 30, 2014 and December 31, 2013 were arrived at on the basis of a valuation carried out on those dates by Cushman & Wakefield Valuation Advisory Services (HK) Ltd. ("C&W") in respect of the properties situated in Shanghai and Chongqing, the PRC. C&W is an independent qualified professional valuer not connected with the Group and has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

10. INVESTMENT PROPERTIES — continued

The fair values of investment properties in Shanghai and Chongqing as at June 30, 2014 determined by C&W are approximately HK$44,066,001,000 (December 31, 2013: HK$45,035,290,000) and HK$6,195,789,000 (December 31, 2013: HK$6,288,525,000) 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 June 30, 2014, the development plan on two pieces of land plot located in Chongqing has not yet been approved by the relevant government authority. As at June 30, 2014, the fair values of these two pieces of land amounted to approximately HK$2,819,756,000 (December 31, 2013: HK$2,892,973,000) is determined by the directors of the Company with reference to the recent market condition in Chongqing for land transaction.

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

For investment properties located in Shanghai

For the six months ended June 30, 2014, in determining the fair values of the investment properties located in Shanghai, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

i. Annual growth rate of rental income is ranging from 3% to 6% (December 31, 2013: ranging from 3% to 6%)

ii. Occupancy rate for the investment properties is ranging from 50% to 98% (December 31, 2013: ranging from 50% to 98%)

iii. Expected developer profit is ranging from 10% to 20% (December 31, 2013: ranging from 10% to 20%)

iv. Discount rate is ranging from 4% to 9% (December 31, 2013: ranging from 4% to 9%) per annum

v. Rental rate per month per square metre is ranging from HK$210 to HK$2,035 (December 31, 2013: ranging from HK$215 to HK$2,040)

10. INVESTMENT PROPERTIES — continued

For investment properties located in Chongqing

For the six months ended June 30, 2014, in determining the fair values of the investment properties located in Chongqing, C&W has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

i. Annual growth rate of rental income is ranging from 4% to 6% (December 31, 2013: ranging from 4% to 6%)

ii. Occupancy rate for the investment properties is ranging from 60% to 85% (December 31, 2013: ranging from 60% to 85%)

iii. Expected developer profit is ranging from 25% to 30% (December 31, 2013: ranging from 25% to 30%)

iv. Discount rate is ranging from 6% to 11% (December 31, 2013: ranging from 6% to 11%) per annum

v. Rental rate per month per square metre is ranging from HK$98 to HK$1,008 (December 31, 2013: ranging from HK$98 to HK$1,006)

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

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

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

	June 30, 2014 HK$'000 (unaudited)	December 31, 2013 HK$'000 (audited)
Trade receivables	**8,910**	9,312
Other receivables, deposits and prepayments	**127,366**	168,502
	136,276	177,814

12. BORROWINGS

	June 30, 2014 HK$'000 (unaudited)	December 31, 2013 HK$'000 (audited)
Bank borrowings	**4,235,458**	2,315,798
Other borrowings	**1,371,938**	1,426,807
	5,607,396	3,742,605

Bank borrowings

As at 30 June 2014, balances of approximately HK$1,986,466,000 represent variable-rate bank borrowings (December 31, 2013: HK$1,994,395,000). The remaining balance of approximately HK$2,248,992,000 (December 31, 2013: HK$321,403,000) are bank borrowings carried at fixed-rate. The interest rates of the Group's variable-rate bank borrowings are based on base rate fixed by the People's Bank of China or Hong Kong InterBank Offered Rates plus a premium.

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

	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Fixed-rate bank borrowing	**9.00%**	9.00%
Variable-rate bank borrowings	**2.02% to 11.6%**	4.70% to 8.61%

12. BORROWINGS — continued

Other borrowings

Based on scheduled repayment dates set out in the loan agreements, fixed-rate other borrowings of approximately HK$249,883,000 (December 31, 2013: HK$915,167,000) are shown under current liabilities. The remaining balances of approximately HK$1,122,055,000 (December 31, 2013: HK$511,640,000) are repayable more than one year, but not exceeding two years and accordingly, shown under non-current liabilities.

The other borrowings carry at fixed interest rate. The weighted average rate is 10.52% (December 31, 2013: 12.14%) per annum.

The bank and other borrowings outstanding as of June 30, 2014 were secured by the following:

- property, plant and equipment with a net carrying value of approximately HK$358,855,000 (December 31, 2013: HK$180,501,000);
- investment properties under construction carried at cost with a carrying value of approximately HK$1,397,554,000 (December 31, 2013: HK$707,676,000);
- investment properties (excluding investment properties under construction carried at cost) with a carrying value of approximately HK$44,667,594,000 (December 31, 2013: HK$27,310,194,000);
- prepaid lease payments with a carrying value of approximately HK$3,006,000 (December 31, 2013: HK$3,206,000);
- properties under development for sales with a carrying value of approximately HK$2,375,185,000 (December 31, 2013: HK$2,637,663,000);
- properties held for sales with a carrying value of approximately HK$286,401,000 (December 31, 2013: HK$295,579,000); and
- pledged bank deposits of approximately HK$127,789,000 (December 31, 2013: HK$101,142,000).

13. 9.125% FIXED RATE SENIOR NOTES AND 13.5% FIXED RATE SENIOR NOTES

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.

The notes borne interest at a fixed rate of 9.125% per annum. The interest charged for the period was calculated by applying an effective interest rate of approximately 10.85% (six months ended 30 June, 2013: 10.85%) per annum. Interest on the notes is payable on May 4 and November 4 of each year. The notes are guaranteed by certain of the Company's subsidiaries. The notes were matured and fully repaid on May 4, 2014.

The directors of the Company considered that the fair values of the redemption options at December 31, 2013 were insignificant.

13.50% 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 period 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.

Details of the fixed rate senior notes are set out in the Company's annual report for the year ended December 31, 2013 dated March 27, 2014.

The directors of the Company consider that the fair values of the redemption options at the date of issuance of the notes, at June 30, 2014 and at December 31, 2013 are insignificant.

14. CONVERTIBLE NOTE

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

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

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

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

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

	At 31/12/2013	**At 30/6/2014**
Spot price	HK$1.98	**HK$1.71**
Exercise price	HK$2.42	**HK$2.42**
Risk-free rate	1.26%	**1.14%**
Discount rate	19.50%	**19.775%**
Volatility	37.872%	**44.458%**
Dividend yield	0%	**0%**

Note: Pursuant to the subscription agreement and the supplemental agreement, conversion option may be exercised at any time after full repayment of the loan principal and all outstanding accrued interest under the facility agreement to China Development Bank Corporation, Hong Kong Branch or the date falling 36 months from the first date a loan was made under the facility agreement (whichever is earlier). The Subscriber will have the right to convert the whole or part of the principal amount of the convertible note into shares at any time and from time to time up to the sixth anniversary of the date of inception of the convertible note. As settlement was made before December 31, 2013. Such option is exercisable at end of both of the reporting period.

14. CONVERTIBLE NOTE — continued

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

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

	Liability HK$'000	Conversion option derivative HK$'000	Total HK$'000
Carrying amount at January 1, 2013	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
Interest charged	30,222	—	30,222
Gain arising on changes in fair value	—	(34,701)	(34,701)
As at June 30, 2014	353,867	147,070	500,937

	June 30, 2014 **HK$'000** **(unaudited)**	December 31, 2013 HK$'000 (audited)
Analysis for reporting purpose as:		
Current	**50,000**	50,000
Non-current	**303,867**	273,645
	353,867	323,645

15. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.1 each		
Authorized:		
At January 1, 2013, June 30, 2013, December 31, 2013, January 1, 2014 and June 30, 2014	5,000,000,000	500,000
Issued and fully paid:		
At January 1, 2013, June 30, 2013, December 31, 2013, January 1, 2014 and June 30, 2014	1,809,077,000	180,907

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

16. CONTINGENT LIABILITIES

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

Guarantee

	June 30, 2014 HK$'000 (unaudited)	December 31, 2013 HK$'000 (audited)
Guarantees given to banks in connection with credit facilities granted to the purchasers of the Group's properties (Note)	**756,186**	1,655,422

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

16. CONTINGENT LIABILITIES — continued

Legal disputes

As at June 30, 2014, 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 and the withdrawal of bank deposits in an aggregate amount of approximately HK$49 million and HK$3 million respectively as at June 30, 2014 (December 31, 2013: HK$153 million and HK$3 million respectively). 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 and internal legal counsel of the Group, 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$32 million (December 31, 2013: HK$124 million) in aggregate. Accordingly no provision is required to be made in the condensed consolidated financial statements. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

17. OTHER COMMITMENTS

	June 30, 2014 HK$'000 (unaudited)	December 31, 2013 HK$'000 (audited)
Construction commitment contracted for but not provided	**1,068,880**	1,076,470

18. OPERATING LEASE COMMITMENTS

As lessor

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

	June 30, 2014 HK$'000 (unaudited)	December 31, 2013 HK$'000 (audited)
Within one year	868	988
In the second to fifth year inclusive	258	657
	1,126	1,645

As lessee

Minimum lease payments paid under operating leases during the period:

	Six months ended June 30,	
	2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Premises	1,601	1,570

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

	June 30, 2014 HK$'000 (unaudited)	December 31, 2013 HK$'000 (audited)
Within one year	1,032	2,656
In the second to fifth year inclusive	353	—
	1,385	2,656

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and are fixed for an average of three (December 31, 2013: three) years.

19. RELATED PARTY TRANSACTIONS

(i) Amount due to a shareholder

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

(ii) Loan from a shareholder

Pursuant to an agreement entered between Mr. Wong and the Company signed in prior period ended June 30, 2013, Mr. Wong agreed that a loan with principal amount of HK$1,200,000,000 (the "Loan") is interest-free, unsecured and extend the maturity date of the Loan from January 1, 2014 to July 1, 2014. The fair value of the Loan was determined based on the effective interest rate of 12.00% per annum at initial recognition. The difference of approximately HK$72,000,000 between the carrying amounts of the Loan and the fair value of the Loan had been credited to equity as deemed contribution from a shareholder.

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

During the six months ended June 30, 2014, effective interest expense of approximately HK$72,000,000 (six months ended June 30, 2013: HK$72,000,000) is capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales.

19. RELATED PARTY TRANSACTIONS — continued

(iii) Other transactions

During the six months ended June 30, 2014, the Group had the following transactions with Pacific Concord Holding Limited ("PCH"), a company in which Mr. Wong has controlling interests, and its subsidiary as follows:

Nature of transactions	Six months ended June 30, 2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Office premises expenses other than rental expenses (Note)	**19**	18

Note: On July 22, 2011, a tenancy agreement (the "Tenancy Agreement") for the use of the principal place of business of the Company in Hong Kong was entered into between the landlord, a subsidiary of PCH of which the 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 electricity fee, fixed line telephone charge and other charges will be shared equally by the parties, and the office premises lease commitment was disclosed together in note 18.

(iv) Compensation of key management personnel

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

	Six months ended June 30, 2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Short term benefits	**780**	768

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

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial liabilities	Fair value as at June 30, 2014	Fair value as at December 31, 2013	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Conversion option derivative	Liability: HK$147,070,000	Liability: HK$181,771,000	Level 3	Binominal option pricing model The fair value is estimated based on risk-free rate, discount rate and share price (from observable market date), volatility of the share price of the Company and dividend yield and exercise price	Volatility of the share price of the Company, determined by reference to the historical share price of the Company and comparable companies.	The higher the volatility of the share price of the Company and comparable companies, the higher the fair value of the conversion option derivative

There is no transfer between different levels of the fair value hierarchy for the period ended June 30, 2014 and 2013.

The fair value of fixed-rate senior rates (categorized within level 2 hierarchy) have been determined with quoted prices from the relevant stock exchange. The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements approximate their fair values.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS — continued

Reconciliation of Level 3 fair value measurements of conversion option derivative

	HK$'000
At January 1, 2013	244,844
Fair value gain recognized in profit or loss	(63,073)
At January 1, 2014	181,771
Fair value gain recognized in profit or loss (Note)	(34,701)
At June 30, 2014	147,070

Note: The gain for the period of HK$34,701,000 relates to conversion option derivative held at the end of the current reporting period.

Fair value measurements and valuation processes

The Group engages qualified external valuers to perform valuations for financial instruments. The accounting officer reports the findings of the valuation prepared by the qualified external valuers to the board of directors of the Company 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.