Financial Review

Profit attributable to shareholders increased to RMB 2,809 million.

Turnover dropped by 28% to RMB4,879 million (2009: RMB6,758 million), primarily due to the decrease in property sales recognised in 2010.

Property sales were down by 32% to RMB4,133 million (2009: RMB6,078 million) due to change in sales mix from different cities as well as the postponement of sales for upgrading the Manor into super luxurious apartments in terms of handover provisions. Details of property sales during the year ended 31 December 2010 are contained in the paragraph headed "Property Sales" in the Business Review Section referred to the above.

Rental and other related income from investment properties rose by 10% to RMB706 million (2009: RMB643 million), mainly due to more leasable area available as a result of more investment properties completed during the year.

Gross profit for 2010 declined to RMB2,010 million (2009: RMB3,529 million) with a gross profit margin of 41% (2009: 52%), largely due to the delivery of the higher margin Shanghai Casa Lakeville in 2009.

Other income rose by 33% to RMB226 million (2009: RMB170 million), consisting of RMB150 million (2009: RMB149 million) in interest income, RMB33 million (2009: RMB20 million) in grants received from local government, guarantee fee income of RMB19 million (2009: nil) and others of RMB24 million (2009: RMB1 million).

Selling and marketing expenses decreased by 6% to RMB142 million (2009: RMB151 million) mainly due to the decrease in contracted sales of the Group from RMB6,486 million in 2009 to RMB4,606 million in 2010 (excluding associates).

General and administrative expenses slightly increased by 3% to RMB561 million (2009: RMB543 million).

Operating profit was lower by 49% at RMB1,533 million (2009: RMB3,005 million), a composite effect on the various items mentioned above.

With the accelerated program for the development of investment properties and asset appreciation, *increase in fair value of investment properties* rose to RMB2,711 million (2009: RMB536 million), of which RMB1,140 million (2009: RMB259 million) was derived from completed investment properties and RMB1,571 million (2009: RMB277 million) from investment properties under construction or development. Details of the investment properties are contained in the paragraph entitled "Investment Properties" in the Business Review Section.

Gain on disposal of investment properties of RMB23 million for the year ended 31 December 2010 represented the disposal of office and retail spaces at a net consideration of RMB185 million (2009: nil).

Share of results of associates was RMB58 million (2009: RMB436 million), which included a revaluation gain of the investment properties under development or construction (net of related taxes) amounting to RMB96 million (2009: RMB496 million) attributable to the Group.

Finance costs, net of exchange gain amounted to a net income of RMB42 million (2009: net expense of RMB89 million), mainly due to the exchange gain on bank and other borrowings of RMB200 million (2009: RMB 44 million). With the issue of RMB2,720 million convertible bonds and RMB3,000 million notes, as well as additional bank loans raised of RMB2,980 million during the year, interest expenses increased to RMB888 million (2009: RMB761 million). Capitalised borrowing costs increased proportionally to RMB796 million (2009: RMB634 million).

Profit before taxation increased by 12% to RMB4,367 million (2009: RMB3,894 million), due to a composite effect of the various items mentioned above.

The Riverview Phase II at Wuhan Tiandi

Taxation increased by 4% to RMB1,357 million (2009: RMB1,301 million). Excluding the land appreciation tax of RMB215 million (which was assessed based on the appreciation value of properties disposed of) together with its corresponding enterprise income tax effect of RMB54 million, the effective tax rate for the year 2010 was 27.4% (2009: 24.4%).

Profit attributable to shareholders of the Company for 2010 was RMB2,809 million, an increase of 5% when compared to 2009 (2009: RMB2,673 million).

Profit attributable to shareholders excluding revaluation of investment properties is as follows:

	Year ended 31 December		
	2010 RMB'million	**2009 RMB'million**	**% change**
Profit attributable to shareholders of the Company	**2,809**	2,673	+5%
Revaluation increase on investment properties of the Group (net of deferred tax effect and share of non-controlling interests)	**(1,957)**	(493)	
Share of revaluation increase on investment properties of associates (net of tax effect)	**(96)**	(496)	
Profit attributable to shareholders of the Company before revaluation of investment properties	**756**	1,684	-55%

Earnings per share were RMB0.55 calculated based on a weighted average of approximately 5,091 million shares in issue during the year ended 31 December 2010 (2009: RMB0.55 calculated based on a weighted average of approximately 4,823 million shares in issue).

Capital Structure, Gearing Ratio and Funding

In September 2010, the Company issued RMB denominated US$ settled convertible bonds with an aggregate principal amount of RMB2,720 million. The convertible bonds bear coupon of 4.5% per annum and convertible at initial conversion price of HK$4.87 with a fixed exchange rate of RMB1.00 to HK$1.1439 at any time between 10 November 2010 and 19 September 2015. In December 2010, the Group also issued RMB3,000 million senior notes with a maturity of three years due in December 2013 (the "2013 Notes"). The 2013 Notes are denominated in RMB and settled in US$, with coupon rate of 6.875% per annum payable semi-annually. In January 2011, the Group further issued RMB3,500 million senior notes with a maturity of four years due in January 2015 (the "2015 Notes"). The 2015 Notes are denominated in RMB and settled in US$, with coupon rate of 7.625% per annum payable semi-annually. The aggregate proceeds from the convertible bonds and senior notes of RMB9,220 million are intended to fund capital expenditures and business growth in future years.

As of 31 December 2010, the structure of the Group's borrowings is summarised below:

	Total (in RMB equivalent) RMB'million	**Due within one year RMB'million**	**Due in more than one year but not exceeding two years RMB'million**	**Due in more than two years but not exceeding five years RMB'million**	**Due in more than five years RMB'million**
Bank borrowings – RMB	**4,576**	350	1,240	1,993	993
Bank borrowings – HK$	**8,276**	1,294	5,081	1,901	–
Other borrowings – US$	**331**	–	–	331	–
	13,183	1,644	6,321	4,225	993
Convertible bonds – RMB	**2,117**	–	–	2,117	–
Notes – RMB	**2,945**	–	–	2,945	–
Total	**18,245**	**1,644**	**6,321**	**9,287**	**993**

Total cash and bank deposits amounted to RMB6,790 million as of 31 December 2010 (31 December 2009: RMB4,947 million), which included RMB1,885 million (31 December 2009: RMB2,019 million) of deposits pledged to banks. The increase in our cash balance was mainly due to the issue of convertible bond of RMB2,720 million and notes of RMB3,000 million (due in 2013) during the year.

As of 31 December 2010, the Group's net debt balance was RMB11,455 million (31 December 2009: RMB5,256 million) and its total equity was RMB26,028 million (31 December 2009: RMB22,574 million). The Group's net gearing ratio was 44% as of 31 December 2010 (31 December 2009: 23%), calculated on the basis of the excess of the sum of convertible bonds, notes, bank and other borrowings net of bank balances and cash (including pledged bank deposits) over the total equity.

The Group's rental and other related income for 2010 expressed as a percentage of the Group's total interest costs before capitalisation to properties under development was 80% (2009: 84%).

Pledged Assets

As of 31 December 2010, the Group had pledged certain land use rights, completed properties for investment and sale, properties under development, accounts receivable and bank and cash balances totalling RMB25,275 million (31 December 2009: RMB20,877 million) to secure our borrowings of RMB11,186 million (31 December 2009: RMB9,217 million).

Capital and Other Development Related Commitments

As of 31 December 2010, the Group had contracted commitments for development costs and capital expenditure amounting RMB14,579 million (31 December 2009: RMB14,418 million).

Future Plans for Material Investments and Sources of Funding

In September 2010, the Company successfully bid for a piece of land located in Shanghai's Hongqiao Transportation Hub with an estimated leasable GFA of approximately 278,000 sq.m. at a consideration of RMB3,188 million.

We shall continue to focus on the development of our existing landbank which is situated in prime locations. We shall, at appropriate times, consider other opportunities to participate in projects of various scale where we can leverage our competitive strengths. We may also pursue other plans, including other ways to acquire land development rights for the purpose of undertaking property projects or other ways to increase the scale of our operations by leveraging on our master planning expertise.

Cash Flow Management and Liquidity Risk

Management of the Group's cash flow is the responsibility of the Group's treasury function at the corporate level.

Our objective is to maintain a balance between continuity of funding and flexibility through a combination of internal resources, bank borrowings and other borrowings, where appropriate. We are comfortable with our present financial and liquidity position, and will continue to maintain a reasonable liquidity buffer to ensure sufficient funds are available to meet liquidity requirements at all times.

High Village of Chongqing Tiandi

Exchange Rate and Interest Rate Risks

The revenue of the Group is denominated in RMB. The convertible bonds and notes issued during the year were also denominated in RMB. As a result, the coupon payments and the repayment of the principal amounts of the convertible bonds and notes do not expose the Group to any exchange rate risks. A portion of the revenue, however, is converted into other currencies to meet our foreign currency denominated debt obligations, such as the bank and other borrowings denominated in HK$ and US$. As a result, to the extent where we have a net currency exposure, the Group is exposed to fluctuations in foreign exchange rates.

Considering a relatively stable currency regime with regard to the RMB as it is maintained by the Central Government, which only allows the exchange rate to fluctuate within a narrow range going forward, and the Group's view that it is more probable than the value of RMB will appreciate rather than depreciate relative to the HK$/US$ in the short to medium term; the Group expects that any adverse effects of the exchange rate fluctuation between the RMB and HK$/US$ may not be significant.

The Group's exposure to interest rate risk results from fluctuation in interest rates. Most of the Group's bank borrowings consist of variable rate debt obligations with original maturities ranging from two to four years for project construction loans; and two to ten years for mortgage loans. Increases in interest rates will increase interest expenses relating to the outstanding variable rate borrowings and cost of new debt. Fluctuations in interest rates may also lead to significant fluctuations in the fair value of the debt obligations.

At 31 December 2010, the Group had various outstanding loans that bear variable interests linked to Hong Kong Inter-bank Borrowing Rates. The Group has hedged against the variability of cash flow arising from interest rate fluctuations by entering into interest rate swaps in which the Group will receive interest at variable rates at the Hong Kong Inter-bank Borrowing Rates and pay interest at fixed rates ranging from 0.95% to 3.58% based on the notional amount of HK$5,581 million in aggregate.

Save as disclosed above, the Group did not hold any other derivative financial instruments as of 31 December 2010. The Group continues to monitor its exposure to interest rate and exchange rate risks closely, and may employ derivative financial instruments to hedge against risk when necessary.