SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司

(Stock Code: 1207)

ANNUAL REPORT 2012

Contents

Introduction of the Group

SRE Group Limited ("the Company") and its subsidiaries ("the Group") are an integrated real estate developer specializing in property development business. The shares of the Company have been listed on the Hong Kong Exchange and Clearing Limited (the "HKEx") since 10 December 1999.

Geographically, Shanghai is the base for the Group's real estate development business. The Group has been gradually expanding into capitals of various provinces and regional hubs with strong economic development potentials. While we are mainly a developer for medium-to-high-end residential properties, we have been gradually building more commercial properties such as office buildings, hotels and shopping malls, aiming at becoming a fully integrated trans-regional real estate developer.

Properties developed by he Group under the brand names of "Oasis Garden", "Rich Gate", "Skyway" and "Albany" enjoy a good reputation in both onshore and offshore markets including Shanghai, Shenyang, Haikou, Wuxi and Hong Kong.

Financial Summary

Summary of Results

(Prepared according to accounting principles generally accepted in Hong Kong)

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
Turnover, net	**3,582**	6,786	6,289	2,831	3,740
Gross Profit	**1,000**	1,867	2,539	1,237	895
Profit before Taxation	**504**	738	1,531	1,525	1,677
Taxation	**(196)**	(319)	(815)	(507)	(893)
Profit after Taxation	**308**	419	716	1,018	784
Non-controlling Interests	**59**	78	(86)	(233)	(536)
Profit Attributable to owners of parent	**367**	497	630	785	248
Proposed Dividends	**–**	–	(105)	(159)	–
Earnings per share					
– Basic	**6.85 Cents**	11.41 Cents	16.90 Cents	23.57 Cents	8.54 Cents
– Diluted	**6.85 Cents**	11.41 Cents	16.29 Cents	22.76 Cents	8.29 Cents
Total Assets	**29,355**	43,656	40,742	34,674	21,307
Total Liabilities	**19,593**	30,681	29,415	23,366	13,434
Net Assets	**9,762**	12,975	11,327	11,308	7,873
Cash reserves	**2,032**	2,521	5,403	4,603	1,575
Shareholders' funds	**9,058**	10,489	8,545	8,192	6,473

	Year ended 31 December				
	2012	2011	2010	2009	2008
Return on Equity (%)	**4%**	5%	7%	10%	4%
Current Ratio (times)	**2.00x**	1.82x	1.75x	1.66x	1.65x
Total Liabilities to Net Assets	**2.01x**	2.36x	2.60x	2.07x	1.71x
Net Debt to Shareholders' Funds Ratio (times)*	**1.94x**	2.68x	2.81x	2.29x	1.83x

* Net Debt to Shareholders' Funds Ratio = (Total Liabilities – Cash and Bank balances) / Shareholders' funds

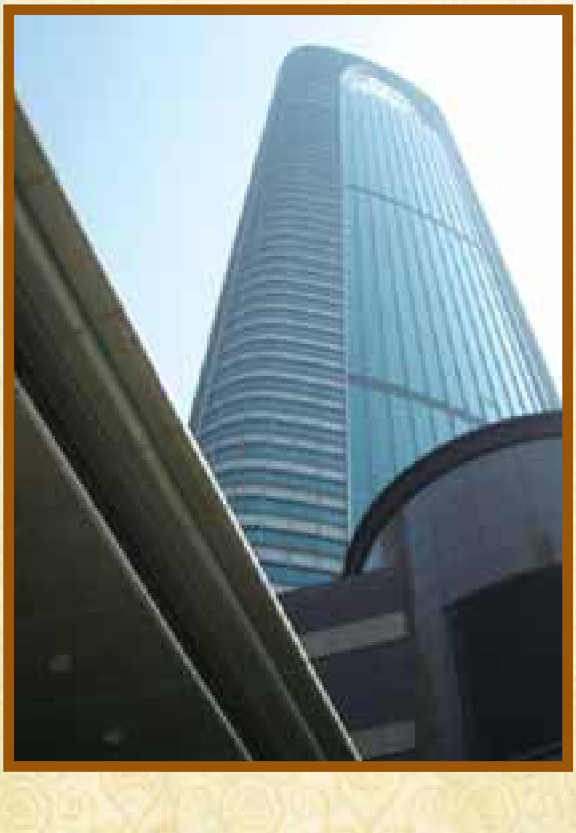
For 2012, the results presented in the summary above include results of both continuing and discontinued operations.

Shanghai Project




Shanghai Project



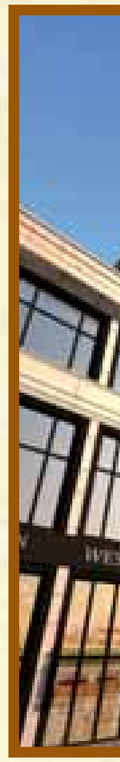
Shenyang Project

Jiaxing Project




Wuxi
Project

Haikou Project






Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I would like to present the annual report for the results of SRE Group Limited for the year ended 31 December 2012 to you.

Chairman's Statement

Business Review

In 2012, major projects put up for sale included Oasis Central Ring Centre, Cedar Villa Original in Shanghai; Jiaxing Project in Zhejiang; Haikou Bund Centre in Haikou; Wuxi Jiangnan Rich Gates in Jiangsu; Shenyang Albany Oasis Garden, Yosmite Oasis Community in Liaoning. For the year ended 31 December 2012, the Group's contracted sales amounted to HK$2.147 billion, with gross floor area of approximately 144,000 square meters.

Project Company	**Sales Contracts Signed** *(HK$x1000)*	**Contractual Gross Area** *(m^2)*
Shanghai Oasis Central Ring Centre	528,033	17,654
Shanghai Cedar Villa Original	488,230	20,514
Jiaxing Project	393,511	25,647
Shenyang Albany Oasis Garden	236,054	24,281
Sheyang Yosmite Oasis Community	202,799	40,571
Haikou Bund Centre	199,928	10,861
Wuxi Jiangnan Rich Gates	25,444	1,434
Other Projects	73,468	2,997
Total	2,147,467	143,959

In 2012, the Group recorded a net turnover of HK$3.343 billion (2011: HK$5.871 billion) from continuing operations. Gross profit from continuing operations for 2012 amounted to approximately HK$0.900 billion (2011: HK$1.408 billion). Gross profit margin for 2012 was about 27% (2011: 24%).

Net turnover breakdown by activity

Turnover from continuing operations	**2012** *(HK$x1000)*	2011 *(HK$x1000)*
Sale of development properties	**3,048,113**	5,731,745
Hotel operations	**194,748**	204,507
Revenue from property leasing	**143,221**	150,867
Property management revenue	**144,110**	131,641
Revenue from construction of infrastructure for an intelligent network	**2,331**	4,250
Other revenue	**17,834**	5,832
Less: Business tax and surcharges	**(207,341)**	(357,439)
Total revenue	**3,343,016**	5,871,403

Note: The above data does not include that of discontinued operation.

Chairman's Statement

Development Projects

Our main development projects include Shanghai Albany Oasis Garden, Oasis Central Ring Centre and Bairun Project in Shanghai; Shenyang Albany Oasis Garden and Yosemite Oasis Community in Liaoning; Wuxi Jiangnan Rich Gates in Jiangsu; Haikou Bund Centre in Hainan and 香島莊園 and 碧水瀾灣 in Jiaxing Zhejiang.

Commercial Properties

The Group has four major commercial real estate projects: three in Shanghai and one in Shenyang. Under the influence of the prevailing austerity measures, the suppressed housing market has nonetheless underscored the trend of increasing investment toward commercial real estate as the prospect of which becomes more promising. The stable development of commercial real estate will make an increasingly important contribution to our revenue.

Commercial Property	Location	Details
Shanghai Skyway Pullman Hotel	Huangpu District, Shanghai	309 rooms
Oasis Central Ring Centre	Putuo District, Shanghai	Approx. 89,000 m^2
Shanghai Shuocheng Supermarket	Zhabei District, Shanghai	Approx. 24,000 m^2
Shenyang Rich Gate Shopping Mall	Financial Golden Corridor, Shenyang	Approx. 240,000 m^2

Relocation for Land of Development Projects

Shanghai Albany Oasis Garden

Phase I and II of Shanghai Albany Oasis Garden enjoyed great selling. Relocation for the remaining phases is underway. As at the end of December 2012, with 6,184 households relocated, households relocation was 98% completed. All economic enterprises had been relocated. For Phase III alone, 99.65% of the households had been relocated which created favorable conditions for the commencement of Phase III development.

Bairun Project

As at the end of December 2012, with 316 households, 9 enterprises and 11 sole proprietors relocated, relocation was 84% completed. This created favorable conditions for Phase II development of the project.

Shenyang Albany Oasis Garden

As at the end of December 2012, with 1,345 households (area: 86,278 m^2) and 13 enterprises (area: 3,062 m^2) relocated, relocation was 80% completed, which created favorable conditions for Phase II development.

Chairman's Statement

Construction Work

Adhering to the development plans and construction timelines formulated in early 2012, the Group and its subsidiary companies had been carrying out the respective development and construction projects in an orderly manner. Taking into account the actual situation and for each of the key areas including design and construction, each company set out thorough plans and controlling measures prior to commencement of works so that targets and quality requirements were clear. As quality management is concerned, emphasis is always on using the right technology, to be supplemented by stringent quality control procedures. With safety, quality and timelines in mind, we have been efficiently and effectively conducting our works in a practical manner, aiming at achieving all targets being set along these lines.

Cedar Villa Original

Villas built under Tender I successfully passed inspection and were handed over to the buyers in May and in August 2012. This falls in line with the schedule for the construction of the 468 fully-furnished villas with total GFA of approximately 60,000 m^2.

Oasis Central Ring Centre

Office Block 6 of the Oasis Central Ring Centre was topped out in May 2012 and its structure has been satisfactorily examined in June. As at the end of December 2012, construction was 80% completed and is expected to be entirely completed in May 2013.

Jiaxing Project

Installation work for 香島莊園, which is on Parcel 5 of Jiaxing Project, was basically completed. As at the end of December 2012, road construction and greenery and landscaping works were underway. Installation work for 碧水瀾灣, which is on Parcel 1, was also basically completed. As of December 2012, all engineer works in relation to the facades were basically completed. It is expected that construction of these two projects will be completed and the houses will be handed over to buyers in December 2013.

Wuxi Jiangnan Rich Gate

Wuxi Jiangnan Rich Gate consists of 170 villas in total, 91 of which have been completed in June 2012, while the remaining 79 villas are being fitted out.

Shenyang Yosemite Oasis Community

The East Parcel of Shenyang Yosemite Oasis Community consists of 502 houses. For 200 houses, interior and exterior fitting out works have just commenced, and as at December 2012, construction was 85% completed. For the remaining 302 units, the main structures of most of them have been topped out. It is expected that these houses will be available for hand over in September 2014.

Haikou Bund Centre

The interior decoration works of Tower 1 of Phase I were completed and the flats were handed over to buyers in June 2012. The Westin Hotel of Phase I was topped out in July 2012, with its glass curtains completely installed in January 2013. Decoration works have already been commenced and it is expected that the hotel will become operational in May 2013. The blue print for the second phase is in the making, and the site has been completely levelled. Construction is expected to be commenced in April 2013.

Chairman's Statement

Major Capital Market and Financing Activities

On 30 April 2012, the Group issued an announcement for the issuance of rights shares of HK$0.10 each at HK$0.30 per rights share on the basis of one rights share for every seven shares. Rights issue was completed on 12 June 2012, with gross proceeds of approximately HK$212 million (before expenses) being raised in the exercise.

In March 2012, Haikou Century Harbour City Co., Ltd. entered into a loan agreement with the Haikou Haidian branch of Bank of China Limited and successfully obtained a loan facility of RMB430 million.

In May 2012, Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management") entered into a loan agreement with the Shenyang Dadong branch of Industrial and Commercial Bank of China Limited and successfully obtained a loan of RMB1 billion, which represented an increase of RMB300 million compared to the original loan of RMB700 million.

Respectively in July, November and December 2012, Shenyang Lukang Real Estate Co., Ltd., Shanghai Shuo Cheng Real Estate Co., Ltd. and Liaoning Gao Xiao Support Group Property Development Co., Ltd. entered into agreements with the corresponding trust companies and borrowed an aggregate amount of approximately RMB1.5 billion. This to a large extent supplements the funding resources to be used for the development of the said projects.

Major Acquisition and Disposal

On 18 May 2012, Golden Bright Resources Limited, a wholly-owned subsidiary of the Group, and Lotus Holding Company Limited entered into the Sale and Purchase Agreement. Pursuant to the Agreement, Golden Bright Resources Limited had to sell the entire share capital of its wholly-owned subsidiary, Go High Investments Limited (the owner of the Shanghai Richgate Shopping Mall). The transaction was completed on 28 June 2012.

On 28 December 2012, Sinopower Investment Limited, a wholly-owned subsidiary of the Company entered into a sales and purchase agreement with Li De E, pursuant to which Sinopower Investment Limited acquired the entire equity interest in Gao Feng Limited (directly holding 40% equity interest in Huarui Asset Management) held by Li De E at a consideration of HK$678 million. The transaction will be completed in the near future, and upon completion, Huarui Asset Management will become a wholly-owned subsidiary of the Company.

Distribution of Special Dividend

On 31 August 2012, the Company made an announcement in relation to the distribution of special dividend in the form of a dividend in specie (i.e. all shares of China New Town Development Company Limited ("CNTD"), held by Sinopower Investment Limited, a wholly-owned subsidiary of the Company). It was approved at the special general meeting held on 21 September 2012 and was completed on 3 October 2012. The Company no longer holds any shares of CNTD and no longer engages in land development.

Chairman's Statement

The Group's Awards

1. In 2012, Rich Gate SeaView was awarded the Golden Prize of the 7th Session of the "Shanghai Outstanding Residence", Shanghai "4-Highs", Energy Conservation and Land Saving Outstanding Estate and "3A Class Residence" by Ministry of Housing and Urban-Rural Development.

2. Shanghai Jinwu Real Estate Co., Ltd. was awarded "Shanghai Civilized Worksite" and "High Quality Structure Award" in Shanghai.

3. Shanghai Real Estate Property Management Co., Ltd. was awarded "Shanghai Favorite Brand (Services)" and was ranked the third in the Satisfaction Survey for Property Management Industry in Shanghai.

Business Outlook

In 2012, cementing the growth was the main theme of macroeconomic policies. During the first half of the year, the government technically calibrated the control measures and the central bank moderately relaxed its monetary policies by reducing the ratio of reserve requirement and the benchmark interest rates of bank deposits and loans, leading to market liquidity gradually improving. Market expectation significantly improved. Taking this opportunity, developers lowered prices to clinch more deals. Number of transactions continued to surge. In the second half of the year, worrying that property prices would climb, the government stated time and again that it would not loosen its control over the property market. Under the backdrop of tight property control measures but moderate monetary policies to ensure a solid and stable growth of the economy, it is apparent that the property market will stabilize and will gradually improve. Analyzed by cities, first and second tier cities outperformed third and fourth tier cities within the country. Given the great pressure from rising property prices in certain cities and unbalanced property supply and demand, the central government will maintain tight property control measures in 2013, continuously implement differential mortgage loan and taxation policies as well as "restrictions on buying" measures. However, the 18th National Congress determined to actively extend urbanization in order to stimulate domestic demand as urban regions contain the greatest potential for domestic demand. Property industry and urbanization are closely linked. Stable and healthy development of the property market is necessary for accelerating urbanization. It is expected that in 2013, the property market will not be volatile and will develop in a healthy manner.

According to the 2012 National Economy and Social Development Statistics published by the China National Statistics Bureau, total investment in real estate development in 2012 amounted to RMB7.1804 trillion, an increase of 16.2% over the previous year. Of this total, investment in residential building development accounted for RMB4.9374 trillion, an increase of 11.4%; investment in office building development accounted for RMB336.7 billion, an increase of 31.6%; investment in commercial space development accounted for RMB931.2 billion, an increase of 25.4%.

In 2012, the investment in real estate development in Shanghai amounted to RMB238.136 billion, representing a year-on-year increase of 9.7%. A total area of 18.9846 million m^2 of commodity properties were sold throughout the year, representing an increase of 7.2%, of which total area of commodity housing amounted to 15.9263 million m^2, representing an increase of 8.1%. Sales of the commodity properties amounted to RMB266,949 million, representing an increase of 3.9%, of which sales of commodity housing amounted to RMB220,896 million, representing an increase of 11.5%.

In 2013, it can be expected that the general economic environment will be favorable after considering the economic transformation, the new model of the progress of urbanization, the income doubling plan and the result of China Central Economic Works Conference. Under this backdrop, the Group will stick to its strategies under its new five-year development plan and will firmly grasp the opportunity arising from urbanization, the greatest potential for domestic demand, as well as the opportunity arising from low carbon economic development through urbanization. Strategies for next year will again focus on reducing inventory and preserving cash. Making profits is only secondary. We will avoid blind expansion and actively adopt effective measures to ensure accomplishing targets of 2013. Meanwhile, the Group will vigorously and orderly develop its projects and make necessary policy adjustments on commercial properties, aiming at achieving the target of construction being commenced on a gross area of approximately 500,000 m^2 during the year, so as to ensure the on-going development of each operation segment of the Group, and will endeavor to keep improving the Group's operating result.

Chairman's Statement

In 2013, the Group will thoroughly study the challenges and opportunities in property development arising from the new model of urbanization, deeply understand and analyze the supply and demand of the property market, meticulously examine the market structure and issues about our own market positioning and financing, invest in the cities suitable for our development, strike a good balance between investment in the first and second tier cities and the third and fourth tier cities, and promptly adjust our strategies according to latest development of the economic environment. Development concept: accelerating the adjustment of our management structure to cope with our development across the country and into different regions. The Headquarters of the Group will concentrate on strategic management, finance management and brand management. Regional branches will be responsible for production, supply and sales and shall be independent and automonous in the way it operates and manages its business. Before carrying out development in a city or commencing a project, sufficient research and analysis will be carried out to ensure scientific and rational investment. Diversified sources of funds guarantee rapid development of projects. We will stick to our business philosophy of low profits and quality services, uphold property development as our core business, focus on brand establishment and strive to realize continuous and rapid development and to turn the Group into a modernized enterprise. Geographical plan: finished establishing strategic foothold in three major regions (Yangtze River Delta, Northeast China and South China) and three major cities (Shanghai, Shenyang and Haikou). Product position: changing focus from middle-to-high-end residential property to middle-end residential property, concentrating on owner occupied residential properties which always command a very solid demand and investment-driven commercial properties. Target of the Group: a quantum leap in operational income and total profits within 5 years.

Shi Jian
Chairman

27 March 2013

Directors and Management

Directors

Executive Directors

Mr. Shi Jian, aged 59, is the Chairman of the Board, chairman of the Nomination Committee as well as the founder of the Group. Mr. Shi is responsible for the formulation of the Group's development strategy. Mr. Shi served in the People's Liberation Army from 1970 to 1986. From 1986 to 1993, Mr. Shi was an administration manager of Shanghai Rainbow Hotel. From 1993 to 1995, he was the general manager of the Universal Mansion project. Mr. Shi has over 20 years' experience in property investment and corporate operation. Mr. Shi Jian is concurrently the chairman of the board of directors of CNTD, a company listed on the Singapore and Hong Kong Stock Exchange (stock code: 1278). Mr. Shi Jian is the spouse of Md. Si Xiao Dong, the Director of various companies of our Group. Mr. Shi Jian is the father of Mr. Shi Janson Bing, the Co-Chief Executive Officer and Executive Director of CNTD and the uncle of Mr. Shi Lizhou, an Executive Director of the Company. Mr. Shi is also the father-in-law of Md. Zuo Xin, an Assistant President of CNTD. Mr. Shi is the ultimate controlling shareholder of the Company. He also sits on the boards of various companies of our Group.

Mr. Li Yao Min, aged 62, resigned as an Executive Director of the Board on 1 April 2013. He was one of the founders of the Group and held the position of the Vice-Chairman of the Board from 2003 to 2011. From 1992 to 1993, Mr. Li worked for Shanghai Golden World Commercial Building Co., Ltd as general manager. Mr. Li has over 20 years' relevant management experience in construction, structure, planning and large scale real estate project development. Mr. Li has been serving as Co-Chairman and Chief Executive Officer since 1 July 2011 in CNTD. He also sits on the boards of various companies within our Group.

Mr. Yu Hai Sheng, aged 58, is the Co-Chairman of the Board and the Chief Executive Officer of the Group. Mr. Yu obtained a Master Degree in Business Administration from the Shanghai University. Mr. Yu joined the Group in 1997. Prior to joining the Group, Mr. Yu had worked as a manager of Shanghai Mechanical Engineering Company, the factory manager of Shanghai Pioneer Mechanical Engineering Factory and the chief of Industrial Planning Bureau of Shanghai Sports Commission. He has ample experience in electrical and mechanical system construction and in business management. He also sits on the boards of various companies of our Group. Mr. Yu is the father of Mr. Yu Songmin, an Assistant President and Deputy Director of CNTD.

Mr. Jiang Xu Dong, aged 48, has been acting as the Vice-Chairman of the Group since 1 November 2011 and is also an Executive Director and Chief Operation Officer of the Group. Mr. Jiang graduated from Shanghai Tongji University in 1986, specializing in industrial and civil construction, and was awarded a MBA degree afterwards. He joined the Group in 1997. He was a department director of Shanghai Real Estate Administration Bureau between 1986 and 1997. Mr. Jiang has over 20 years' experience in property development and administration.

Mr. Wang Zi Xiong, aged 59, was appointed as an Executive Director and the vice chairman of the Board an 1 April 2013. He joined the Group in April 2004 and was appointed as the chief financial officer of the Group on 27 December 2012. Mr. Wang graduated from the Agricultural College of Shanghai Jiaotong University with a college degree in finance in 1986, and is an economist. Mr. Wang started working in the Agricultural Bank of China Shanghai Branch in March 1979, and had been the deputy director of Credit Department of the Agricultural Bank of China Shanghai Branch and the head of the Agricultural Bank of China Jing'an Branch. He has 25 years' experience in the financial sector. Mr. Wang was appointed as a president of SRE Investment Holding Limited, the controlling shareholder of the Company, in 2004. Mr. Wang was a director of Shanghai Jinwu Real Estate Co., Ltd. from September 2009 to July 2010 and from February to March 2013. He has also been a director of Shanghai Skyway Hotel Co., Ltd. since November 2008.

Directors and Management

Mr. Zhang Hong Fei, aged 36, was appointed as an Executive Director on 1 November 2011. He holds a master degree in economics from Shanghai University and a professional graduation certificate in industrial foreign trade from the Wuhan Institute of Technology (then known as the Wuhan Institute of Chemical Technology). Between 1996 and 1998, Mr. Zhang had worked in the office of external affairs of Sanmenxia Chemical Machinery Co., Ltd. Since joining the Group in 2001, Mr. Zhang had held various positions such as the deputy general manager and the general manager of the asset management department of the Group, and a vice president of the Group. He currently acts as the general manager and the chairman of the boards of various property project companies of the Group. Mr. Zhang has over 10 years of experience in foreign affairs, asset management, property development and property operation.

Mr. Shi Li Zhou, aged 30, was appointed as an Executive Director on 1 November 2011. He holds a master degree in global financial management from Northumbria University at Newcastle Upon Tyne, the United Kingdom and a bachelor degree in finance from Lancaster University, the United Kingdom. Mr. Shi has 3 years of experience working in the field of property development in the Company. He has been the co-general manager of Shanghai Zhufu Property Development Co., Ltd., a subsidiary of the Company, since June 2007 and has become the general manager in corporate finance of the Company since March 2010. He was also assigned as an assistant president and a deputy director of CNTD from 30 November 2010 to 29 March 2012. He is also the general manager of the Group's Bairun Project in Shanghai and a director of Shanghai Lushan Real Estate Ltd., a subsidiary of the Company. Following Mr. Shi's appointment as an executive Director, he continues to act as the co-general manager of Shanghai Zhufu Property Development Co., Ltd. and the general manager of Bairun Project in Shanghai. Mr. Shi is the nephew of Mr. Shi Jian, the chairman of the Board and he is also the cousin of Mr. Shi Janson Bing, the co-chief executive officer and an executive director of CNTD.

Non-executive Directors

Mr. Cheung Wing Yui, aged 63, is a Non-executive Director of the Company. He is also a member of the audit committee and a member of the remuneration committee. Mr. Cheung has been a practicing lawyer in Hong Kong since 1979 and admitted as a solicitor in the United Kingdom and as an advocate and solicitor in Singapore. He is currently a consultant of Messrs. Woo, Kwan, Lee & Lo, Solicitors and notaries, and the Deputy Chairman of the Council of the Open University of Hong Kong. Mr. Cheung is a director of a number of listed companies in Hong Kong (including SmarTone Telecommunications Holdings Limited, Sunevision Holdings Limited, Tianjin Development Holdings Limited, Tai Sang Land Development Limited, Hop Hing Group Holdings Limited and Agile Property Holdings Limited) and retired as director of Taifook Securities Group Limited and Ching Hing (Holdings) Limited in 2007 and Ping An Insurance (Group) Company of China, Ltd in 2009.

Mr. Jin Bing Rong, aged 64, is a Non-executive Director of the Company and a member of the audit committee. Mr. Jin graduated from Fudan University in 1984 and obtained a master degree in international finance in 1997. Mr. Jin has over 20 years' experience in banking and was the former president of the Shanghai branch of the Agricultural Bank of China. Mr. Jin had been working with the Agricultural Bank of China since 1981 and had served as the president of various branches in Shanghai during his 20-plus years' career with the bank.

Independent Non-executive Directors

Mr. Jiang Xie Fu, aged 70, is an Independent Non-executive Director of the Company and the chairman of the audit committee. He was the Vice-Chairman of the Urban & Rural Construction and Environmental Protection Committee of Shanghai People's Congress Standing Committee from 2003 till 2008. Besides, he was once the Party Secretary of the Shanghai Municipal Housing, Land and Resource Administration Bureau. He obtained a Bachelor degree in Shanghai Normal University majoring in History.

Directors and Management

Mr. Zhuo Fu Min, aged 61, was appointed as an Independent Non-Executive Director of the Company in November 2010. He is also a member of the audit committee, a member of the nomination committee and a member of the remuneration committee of the Company. Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983 and obtained a master degree in Economics from Fudan University in 1997. Between 1987 and 1995, Mr. Zhuo served senior positions such as the assistant officer and the head of the administrative office of the Shanghai Economic System Reform Committee. Between 1995 and 2002, Mr. Zhuo held various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the chief executive officer and the vice chairman of Shanghai Industrial Holdings Limited, a company listed on the HKEx (stock code: 363) and the chairman and an executive director of SIIC Medical Science and Technology (Group) Limited. From 2002 to 2005, Mr. Zhuo was the chairman and the chief executive officer of Vertex China Investment Co., Ltd., a wholly owned subsidiary of Vertex Management Group which is a global venture capital fund management company. In 2005, Mr. Zhuo co-founded SIG Capital Limited and was appointed as the Chairman. Since 2008, Mr. Zhuo has been a partner of GGV Capital. Mr. Zhuo was previously an independent director of China Enterprise Company Limited, a company listed on the Shanghai Stock Exchange (stock code: 600675). Currently, he is a director of Daqo New Energy Corp., a company listed on the New York Stock Exchange (stock code: DQ) and an non-executive director of Besunyen Holdings Company Limited, a company listed on the HKEx (stock code: 926). He also serves as an independent non-executive director of Focus Media Holding Limited, a company listed on NASDAQ (stock code: FMCN) and Shenyin Wanguo (H.K.) Limited, a company listed on the HKEx (stock code: 218).

Mr. Yuan Pu, aged 62, is an independent non-executive director of the Company and a member of the nomination committee. Mr. Yuan is a senior economist. From 1970 to 1994, Mr. Yuan was a government official and had served several departments under the State Council. Positions he held during this period included the Vice Division Chief of the Comprehensive Production Department and the Division Chief of the Policies, Laws and Regulations Department of the Ministry of Chemical Industry of the PRC, the Division Chief of the Policies, Laws and Regulations Department of the Economic and Trade Office of the State Council and the Division Chief of the Research Office of the State Economic and Trade Commission. From 1995 to 1999, Mr. Yuan was employed as the Vice Director of the China National Tendering Centre of Mach. & Elec. Equipment. From 1999 to 2010, Mr. Yuan served as the Director General of China Coordination Center for Cooperation of SMEs with Foreign Countries and China Centre for Promotion of SME Development as well as the Executive Vice-President and Secretary-General of China International Cooperation Association of Small and Medium Enterprises.

Mr. Chan, Charles Sheung Wai, aged 58, was appointed as an independent non-executive director of the Company, chairman of the remuneration committee and a member of the audit committee with effect from 10 July 2012. Mr. Chan obtained a Bachelor of Commerce degree at the University of Manitoba, Canada in 1977. He is a member of the Chartered Accountants of Canada as well as a member of the Hong Kong Institute of Certified Public Accountants. He started his career as an audit staff at the Canadian office of Arthur Andersen in 1977 and was admitted to partnership in 1988. He subsequently joined the China/Hong Kong office of Arthur Andersen as an audit partner in 1994. For the period from July 2002 to June 2012, he was a partner of the China/Hong Kong Office of PricewaterhouseCoopers. Mr. Chan served as a member of the Listing Committee of The Stock Exchange of Hong Kong Limited during the period from 1998 to 2001 and also served as a member of the Selection Committee for the first Legislative Council of the Hong Kong Special Administrative Region in 1998. From 1996 to 1999, he was a council member of the Hong Kong Society of Certified Public Accountants (the "Society"). He had also served as a member of the Accounting Standards Committee of the Society, a member of the Auditing Standards Committee of the Society and the chairman of the China Technical Committee of the Society.

Management Discussion and Analysis

Financial Review

Turnover and profit attributable to shareholders

In 2012, the Group recorded net revenue from continuing operations of approximately HK$3,343 million (2011: HK$5,871 million), which represents a decrease by approximately 43% compared with that of 2011. The decrease was mainly due to the decline in recognised sale of development properties. Profit attributable to owners of the parent was approximately HK$367 million, a decrease of 26% compared with approximately HK$497 million in 2011.

Liquidity and Financial Resources

As at 31 December 2012, cash and bank balances amounted to approximately HK$2,032 million (2011: HK$2,521 million), a decrease of 19% from previous year. Working capital (net current assets) of the Group as at 31 December 2012 amounted to approximately HK$11,067 million (2011: HK$13,986 million), a decrease of 21% from previous year. The decreases were mainly a result of the distribution of CNTD shares as special dividend to shareholders of the Company (Please refer to the paragraph of "Distribution of special dividend" below for details). Current ratio rised slightly to 2.00x (2011: 1.82x).

As at 31 December 2012, the ratio of total liabilities to total equity was 2.01x (2011: 2.36x), and the gearing ratio was approximately 50% (2011: 49%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balance of approximately HK$2,032 million) over total capital (total equity and net borrowings).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

On 18 May 2012, Golden Bright Resources Limited, a wholly-owned subsidiary of the Group, and Lotus Holding Company Limited entered into the Sale and Purchase Agreement. Pursuant to the Agreement, Golden Bright Resources Limited had to sell the entire share capital of its wholly-owned subsidiary, Go High Investments Limited (the owner of the Shanghai Richgate Shopping Mall). The transaction was completed on 28 June 2012.

On 28 December 2012, Sinopower Investment Limited, a wholly-owned subsidiary of the Company entered into a sales and purchase agreement with Li De E, pursuant to which Sinopower Investment Limited acquired the entire equity interest in Gao Feng Limited (directly holding 40% equity interest in Huarui Asset Management) held by Li De E at a consideration of HK$678 million. Upon completion, Huarui Asset Management will become a wholly-owned subsidiary of the Company.

Distribution of special dividend

On 31 August 2012, the Company made an announcement in relation to the distribution of special dividend in the form of a dividend in specie (i.e. all shares of CNTD, held by Sinopower Investment Limited, a wholly-owned subsidiary of the Company). It was approved at the special general meeting held on 21 September 2012 and was completed on 3 October 2012. The Company no longer holds any shares of CNTD and no longer engages in land development.

Employees

As at 31 December 2012, the Group had retained 2,470 (2011: 3,520) employees in Hong Kong and the PRC. Total staff costs of the Group, excluding directors' remuneration, for the year under review amounted to approximately HK$159 million (2011: HK$170 million). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of each individual employee.

Management Discussion and Analysis

Charges on Assets and Contingent Liabilities

At the the end of the financial period, total bank and other borrowings of approximately HK$10,898 million (2011: HK$13,705 million) were secured by pledge of the Group's assets including leasehold land, investment property, property, plant and equipment, properties held or under development for sale and equity interest in subsidiaries, details of which are set out in note 33 to the financial statements.

The Group provided guarantees in respect of the mortgage facilities granted by certain banks to the purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates of grant of the relevant mortgage loans and end when the purchasers pledge related properties certificates as security to the bank for the mortgate loans granted by the banks. The Group entered into guarantee contracts of principal amounts totalling approximately RMB452 million (equivalent to HK$557 million) and these contracts were still effective as at the close of business on 31 December 2012.

The Group did not incur any material losses during the financial year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The Directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty as the mortgage principals are normally below 70% of sales prices of the respective properties at date of the sales agreements, and therefore no provision has been made in connection with the guarantees.

Details of projects under development:

Project	Location	Land Use	GFA (sqm)	Expected Date of Completion	Completion Rate of Construction	Holding Propotion of SRE
The Bund Center Haikou	No.18 Taihua Road, Longhua District, Haikou City, Hainan Province, The PRC	Hotel	45,458	2013	65%	79%
		Residentil Phase II	220,400	2015	0%	79%
		Commercial Phase II	19,540	2015	0%	79%
Minhang Project	No. 3888, Kunyang Northern Road, Maqiao Town, Minhang District, Shanghai, The PRC	Residential	103,164	yet to be decided	0%	27.70%
Albany Oasis Garden	No. 699, Zhong Xing Road, Zhabei District, Shanghai, The PRC	Residentil Phase III	159,500	2015	0%	100%
		Residentil Phase IV	45,000	2018	0%	100%
		Commercials	40,000	2018	0%	100%
		Office & Hotel	100,500	2018	0%	100%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road,Putuo District, Shangha, The PRC	Office	41,942	2013	80%	95.79%

Management Discussion and Analysis

Project	Location	Land Use	GFA (sqm)	Expected Date of Completion	Completion Rate of Construction	Holding Propotion of SRE
Shengyang Albany	South Heping Road, Heping District, Shenyang City, Liaoning Province, The PRC	Residentil Phase II	119,820	2015	0%	97.50%
		Commercial Phase II	2,281	2015	0%	97.50%
		Residentil Phase III	50,900	2015	0%	97.50%
		Residentil Phase IV	16,618	2017	0%	97.50%
		Residentil Phase V	160,940	2016	0%	97.50%
		Office/Commerical	465,354	2017	0%	97.50%
Jiang Nan Rich Gate Wuxi	Within Wuxi Hongshan New Town	Residential	50,544	2013	**90%**	98.75%
Pudong Project	Yongfa Road, Pudong New District, Shanghai, The PRC	Residential	48,288	yet to be decided	0%	98.75%
Bairun Project	99 Lane 99, Baotun Road, Huangpu District, Shanghai, The PRC	Residential	26,776	2014	0%	50.36%
		Commercials	4,833	2014	0%	50.36%
		Facilities	560	2014	0%	50.36%
Rich Gate I (Qinhai Oasis Garden)	Daxing Road, Huangpu District, Shanghai, The PRC	Residential Phase I	70,693	yet to be decided	0%	100%
		Residentil Phase II	30,297	yet to be decided	0%	100%
		Commercial Phase I	41,939	yet to be decided	0%	100%
		Commercial Phase II	10,800	yet to be decided	0%	100%
Shenyang Yosemite Oasis Community	the town of Lee Sang Lane, Dongling District, Shenyang City, Liaoning Province, The PRC	Town House Phase I	162,386	2013	85%	98.95%
		Residential Phase III	203,960	2015	0%	98.95%
Jiaxing Project	No.1, Linghu Road, Nanhu District, Jiaxing City, Zhejiang Province, The PRC	Residential and Commercial	97,905	2013	85%	98.96%
		Residential and Commercial	65,139	2013	85%	98.96%
		Residential and Commercial	72,377	2014	0%	98.96%

Management Discussion and Analysis

Project	Location	Land Use	GFA (sqm)	Expected Date of Completion	Completion Rate of Construction	Holding Propotion of SRE
Wuxi Yongqing	Within Wuxi Hongshan New Town	Residential	127,637	2015	0%	98.75%

Details of completed investment properties:

Project	Location	Land Use	GFA (sqm)	Group's Equity Interest (%)
Shenyang Rich Gate	No.118, Harbin Road, Shenhe District, Shenyang City, Liaoning Province, The PRC	Commercial	245,252	60%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shangha, The PRC	Retail	32,143	95.79%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shangha, The PRC	Car Park	57,045	95.79%
Unit 2605, 2606, 26(3A), 2803, 2806 and 28(3A) of Universal Mansion	No. 172 Yuyuan Road, Jing'An District, Shanghai, The PRC	Office	732	98%
Shanghai Shuocheng supermarket	No. 350, Zhong Hua Xin Road, Zhabei District, Shanghai, The PRC	Retail	Approx. 24,000	100%

Details of hotels:

Project	Location	Land Use	GFA (sqm)	Group's Equity Interest (%)
Shanghai Skyway Pullman Hotel	No.15 Dapu Road, Luwan District, Shanghai, The PRC	Hotel	64,047	56%

Report of the Directors

The directors have pleasure in submitting the annual report together with the audited consolidated financial statements of SRE Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2012.

Principal Activities

The Group are mainly engaged in real estate development, property leasing and hotel operations in Mainland China. The principal activities of its principal subsidiaries and associates are set out in notes 21 and 23 respectively to the financial statements.

As at 31 December 2012, the Company's parent company is SRE Investment Holding Limited (the "SREI"), which holds 55.23% of the Company's shares (52.26% as at 31 December 2011). The remaining 44.77% of the shares are held by various different shareholders.

During 2012, the Company distributed its entire holding of the shares in CNTD (the Company's former subsidiary engaged in planning and developing large-scale new towns in China, a company listed on the Main Boards of both the HKEx and the Singapore Exchange Securities Trading Limited) to the Company's shareholders (including its parent, SREI) via a special dividend in the form of a distribution in species (the "Distribution", please refer to note 15 to the financial statements for more details). Upon completion of the Distribution on 3 October 2012, the Group no longer holds any share in CNTD, and CNTD and its subsidiaries (collectively, the "CNTD Group") hence ceased to be subsidiaries of the Company.

Segmental Information

Details of the Group's turnover and profit by principal activity and geographical area for the year ended 31 December 2012 are set out in note 4 to the financial statements.

Results and Appropriations

Details of the Group's results for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income. No interim dividend was declared by the Board of Directors of the Company. No final dividend to the shareholders was proposed by the Company in respect of the year ended 31 December 2012 (2011: Nil).

Pursuant to a resolution passed at the special general meeting on 21 September 2012, the Company offered a special dividend in the form of a distribution in specie of all of the 2,658,781,817 shares in CNTD it owned to its shareholders proportional to their respective shareholding in the Company. As a result, shareholders holding a total of 5,664,713,722 shares were entitled to receive the dividend and share registration in relation to the Distribution was completed on 3 October 2012.

Bank Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 33 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and in note 32 to the financial statements.

Distributable Reserves

As computed in accordance with The Companies Act 1981 of Bermuda, the total amount of reserves of the Company available for cash distribution was approximately HK$6.9 million (2011: Nil). The share premium account with balance of approximately HK$5,434 million (2011: HK$5,296 million) may be distributed in the form of fully paid bonus shares.

Report of the Directors

Share Capital

Details of movements in the share capital of the Company are set out in note 31 to the financial statements.

Financial Summary

A financial summary of the Group is set out on page 3 of the Annual Report.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of Listed Securities of the Company

On 23 July 2012, an aggregate principal amount of RMB440 million (approximately HK$541 million) Convertible Bonds 4 ("CB4") was redeemed at the redemption price of RMB 440 million upon the exercise of the Put Option by the bondholders. The face value of the CB4 remaining outstanding as at 31 December 2012 amounted to RMB7 million (equivalent to HK$9 million).

Other than the above, neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

Movements in Securities

On 30 April 2012, the Group announced the issuance of Rights Shares of HK$0.10 each on the basis of one Rights Share for every seven Shares held by the Qualifying Shareholders on the Record Date at HK$0.30 per Rights Share. The Rights Issue was completed on 12 June 2012 and gross proceeds of HK$212 million (before expenses) were raised.

Fixed Assets and Investment Properties

Details of the movement in fixed assets and investment properties of the Group are set out in notes 17 and 18 respectively to the financial statements.

Related Party Transactions

Details of the Related Party Transactions (which also include connected transactions) of the Group for the year ended 31 December 2012 are set out in note 47 to the financial statements.

Report of the Directors

Directors

The directors who held office during the year and as of the date when the annual report was published are:

Executive Directors

Mr. Shi Jian
Mr. Li Yao Min (resigned on 1 April 2013)
Mr. Yu Hai Sheng
Mr. Jiang Xu Dong
Mr. Wang Zi Xiong (appointed on 1 April 2013)
Mr. Shi Pin Ren (resigned on 27 December 2012)
Mr. Zhang Hong Fei
Mr. Shi Li Zhou

Non-executive Directors

Mr. Cheung Wing Yui
Mr. Jin Bing Rong

Independent Non-executive Directors

Mr. Jiang Xie Fu
Mr. E. Hock Yap (retired on 29 May 2012)
Mr. Zhuo Fu Min
Mr. Yuan Pu
Mr. Chan, Charles Sheung Wai (appointed on 10 July 2012)

The Company had received confirmation from each of the independent non-executive directors of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the HKEx and considered all independent non-executive directors to be independent.

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Bye-laws of the Company, Mr. Yu Hai Sheng, Mr. Jin Bing Rong, Mr. Jiang Xie Fu, Mr. Zhuo Fu Min, Mr. Wang Zi Xiong and Mr. Chan, Charles Sheung Wai will retire at the forthcoming annual general meeting, but being eligible, will offer themselves for re-election.

Biographical details for Directors are set out on pages 23 to 25 of this Annual Report.

Directors' Emoluments

The fixed annual remuneration of the executive Directors is determined by the remuneration committee of the Board. Each executive Director is also entitled to an annual management bonus under the relevant service contract, the amount of which is to be determined by the Board from time to time, provided that the aggregate management bonus payable to all executive Directors for a financial year shall not be more than 10% of the Company's net profit after taxation and non-controlling interests as shown in the audited consolidated financial statements of the Company for the relevant year.

The fixed annual remuneration of Mr. Shi Jian, Mr. Yu Hai Sheng, Mr. Jiang Xu Dong and Mr. Shi Pin Ren in 2012 was reduced by a lump sum of HK$500,000, HK$500,000, HK$300,000 and HK$500,000 respectively versus the amount payable to each of them pursuant to his service contact, and such adjustments have been extended to 2013Q1 on a pro-rata basis. This decision was determined with reference to the Company's performance and profitability, as well as the remuneration benchmark in the industry and the prevailing market conditions.

Details of directors' emoluments are set out in note 10 to the financial statements.

Report of the Directors

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with any member of the Company which is not determinable within one year without the payment of compensation other than statutory compensation.

Directors' Interest in Contracts of Significance

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Company's directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares or Debentures

In 2012, none of the directors had been granted any options or exercised any options of the Company.

Saved as disclosed in the section "Share option scheme" below, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Directors' and Chief Executives' Interests in Shares, Underlying Shares and Debentures

As at 31 December 2012, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the HKEx pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the HK Listing Rules were as follows:

(i) Long position in Shares of the Company

Name of Director	Personal interests	Family interests	Corporate interests	Total	Approximate percentage of shareholding
Shi Jian	13,006,991	2,324 *(Note 1)*	3,128,434,628 *(Note 2)*	3,141,443,943	55.46%
Li Yao Min	5,172,324	–	–	5,172,324	0.10%
Yu Hai Sheng	6,236,091	–	–	6,236,091	0.11%
Zhuo Fu Min	–	160,000 *(Note 3)*	–	160,000	0.003%

Notes:

1. These Shares were held by Md. Si Xiao Dong, the spouse of Mr. Shi Jian.

2. These 3,128,434,628 Shares were held by SREI. As Mr. Shi Jian and his spouse, Md. Si Xiao Dong together beneficially own 63% of the issued share capital of SRE Investment, Mr. Shi is therefore taken to be interested in these 3,128,434,628 Shares.

3. These Shares were held by Md. He Pei Pei, the spouse of Mr. Zhuo Fu Min.

Report of the Directors

(ii) Long position in shares and underlying shares in associated corporations of the Company

CNTD ceased to be an associated corporation of the Company within the meaning of part XV of the SFO after the distribution by way of dividend in species of the shares by the Company to its shareholders on 3 October 2012.

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO) or the Model Code or which were required to be entered in the register required to be kept under Section 352 of the SFO.

Substantial Shareholders' Interests

As at 31 December 2012, so far as is known to any Director or chief executives of the Company, the following persons, other than a Director or chief executives of the Company, had interests of the Company or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under the Section 336 of Part XV of the SFO:

Long positions and short positions in Shares

Name of Shareholder	Capacity	Number of issued ordinary shares held *(Note 1)*	Approximate percentage of shareholding
Si Xiao Dong	Beneficial owner, spouse and corporate interest	3,141,443,943 (L) *(Note 2)*	55.46%
SRE Investment	Beneficial owner	3,128,434,628 (L)	55.23%

Notes:

(1) "L" represents long positions in Shares.

(2) These Shares comprised 2,324 Shares held by Md. Si Xiao Dong, 13,006,991 Shares held by her spouse – Mr. Shi Jian and 3,128,434,628 Shares which SRE Investment was interested in.

Save as disclosed above, none of the Directors nor the chief executive of the Company was aware of any other person (other than a Director or chief executive of the Company) or corporation who had an interest or short position in the Shares or underlying Shares which would have to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO.

Report of the Directors

Share Option Scheme

A share option scheme was approved in a special general meeting held on 23 May 2002. According to this share option scheme, the directors may, at their discretion at any time during the ten years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and will be determined according to the higher price of (i) the nominal value of the shares of the Company (ii) the average official closing price of the shares on the HKEx for the five trading days immediately preceding the relevant offer date and (iii) the official closing price of the shares on the HKEx on the relevant offer date. Options granted become vested immediately and are not conditional on employees' service period. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee and unless the Board shall otherwise resolve in relation to any option at the time of grant, such period of time should not exceed 3 years commencing on the expiry of six months after the date on which the option is accepted and should expire on the last day of such period or 11 November 2009, whichever is earlier.

The Scheme expired on 22 May 2012. No share option of the Company was granted, exercised, cancelled or lapsed on or before this date.

Competing Interests

None of the Directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Major Customers and Suppliers

The Group's customers from whom the revenue of continuing operations derived are widely dispersed. No customer nor a single group of customers under common control of continuing operations contributed 10% or more of the Group's revenue for the years ended 31 December 2012 and 2011. During the year, less than 30% of the Group's revenue was attributable to the Group's five largest customer combined.

During the year, less than 30 per cent of the Group's purchases were attributable to the Group's five largest suppliers combined.

Donation

Charitable donation made by the Group during 2012 amounted to HK$74 thousand (2011: HK$91 thousand).

Public Float

According to the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has complied with the public float requirement under the Listing Rules.

Audit Committee

The Company established an audit committee on 12 November 2001 with terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules. The audit committee has five members comprising the two non-executive Directors and the three independent non-executive Directors. The audited annual financial report for the year ended 31 December 2012 has been reviewed by the Audit Committee.

Report of the Directors

Pension Scheme

Details of the Group's pension schemes are set out in the section of other employee benefits of Note 2.4 to the financial statements.

Events after the reporting period

Details of the significant events of the Group after the reporting period are set out in note 51 to the financial statements.

Auditors

The financial statements for the years ended 31 December 2007, 2008, 2009, 2010, 2011 and 2012 have been audited by Messrs. Ernst & Young. A resolution for their re-appointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the board
Shi Jian
Chairman

Hong Kong, 27 March 2013

Corporate Governance Report

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interests of all of its stakeholders. The Board and senior management are committed to maintain a high standard of corporate governance which provides a framework and a solid foundation for achieving a high standard of accountability and transparency.

Corporate Governance Practices

Throughout the financial year, the Board has reviewed its corporate governance practices and confirmed that the Company has complied with all principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") except for Code provisions A.6.7 and E.1.2. Code Provision A.6.7 stipulates that Independent non-executive directors ("INEDs", each an "INED") and other non-executive directors should attend general meetings and develop a balanced understanding of the views of Shareholders. Code Provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting and he should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. Mr. Shi Jian, the Chairman of the Board of Directors, and Mr. E. Hock Yap, the then INED and the Chairman of the Remuneration Committee, did not attend the annual general meeting for the year 2012 due to other business commitments.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. In response to specific enquiries made, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year of 2012.

Board of Directors

Throughout the year ended 31 December 2012, the Company has complied with the board's practices and procedures as set out in the Listing Rules, except for the deviation as disclosed under the section of "Independent Non-executive Directors" hereunder.

Board Composition

As at 31 December 2012, the Board consists of twelve Directors, including six executive Directors, namely, Mr. Shi Jian (Chairman), Mr. Li Yao Min, Mr. Yu Hai Sheng, Mr. Jiang Xu Dong, Mr. Zhang Hong Fei and Mr. Shi Li Zhou; two non-executive Directors, namely, Mr. Cheung Wing Yui and Mr. Jin Bing Rong; and four independent non-executive Directors, namely, Mr. Jiang Xie Fu, Mr. Zhuo Fu Min, Mr. Yuan Pu and Mr. Chan, Charles Sheung Wai.

Subsequently, Mr. Li Yao Min resigned as an executive Director of the Board and Mr. Wang Xi Ziong who is currently the chief financial officer of the Company, was appointed as an executive Director and the vice chairman of the Board with effect from 1 April 2013. An updated List of the Directors and their Role and Function is published on the websites of the Stock Exchange and the Company respectively.

Save as disclosed in the above section "Directors and Management", there is no financial, business, family or other material/relevant relationship amongst the Directors.

Role of the Board

The Board, which is accountable to shareholders for the long-term performance of the Company, is responsible for directing the strategic objectives of the Company and overseeing the management of the business. Directors are charged with the task of promoting the success of the Company and making decisions in the best interest of the Company.

The Board formulates, approves and monitors Group-wide strategies and policies, evaluates the performance of the Company, and supervises the management of the Company ("Management"). Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

Corporate Governance Report

Chairman, Co-chairman and Chief Executive Officer

Mr. Shi Jian is the executive Chairman of the Board and responsible for formulating, developing and reassessing the Group's strategies and policies and ensuring the effectiveness of Board matters while Mr. Yu Hai Sheng is the Co-chairman of the Board and Chief Executive Officer ("CEO") and responsible for the duties in absence of the Chairman of the Board and the execution of the Group's business strategies and plans. The positions of the Chairman and the CEO are held by separate individuals so as to maintain an effective segregation of duties.

Independent Non-executive Directors

The Board has 12 members with 4 of them being INEDs. This satisfies both the requirements of having at least 3 INEDs under Rule 3.10(1) of the Listing Rules, as well as of having INEDs representing at least one-third of the Board under Rule 3.10A of the Listing Rules. The INEDs are expressly identified in all corporate communications pursuant to the Listing Rules.

Due to Mr. E. Hock Yap's retirement as an independent non-executive director, the Company since 29 May 2012 temporarily failed to comply with (i) Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which requires that at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise; (ii) Rule 3.21 of the Listing Rules, which requires that at least one of the members of the Audit Committee of the Board who is an INED has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules and the majority of the Audit Committee of the Board to be INEDs; and (iii) Rule 3.25 of the Listing Rules, which requires the Remuneration Committee of the Board to be chaired by an INED and to comprise a majority of INEDs. The Company subsequently appointed Mr. Chan, Charles Sheung Wai as an independent non-executive director, the chairman of the Remuneration Committee and the member of the Audit Committee on 10 July 2012, and such non-compliance was rectified.

The Board has assessed the independence of all the Independent Non-executive Directors of the Company and considers that all of them are independent under Rule 3.13 of the Listing Rules, having taken into account (i) their annual confirmation on independence as required under the Listing Rules, (ii) the absence of involvement in the daily management of the Company and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgment.

The functions of independent non-executive Directors include:

- expressing an independent view and judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinizing the Company's performance and monitoring performance reporting.

The independent non-executive Directors have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They gave the Board and the Board committees the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation.

Corporate Governance Function

The Board is collectively responsible for performing the corporate governance duties including:

(a) to develop, review and implement the Company s policy and practices on corporate governance;
(b) to review and monitor the training and continuous professional development of directors and senior management;
(c) to review and monitor the Company s policies and practices on compliance with legal and regulatory requirements;
(d) to develop, review and monitor the code of conduct applicable to employees and directors; and
(e) to review the Company s compliance with the CG Code which is amended from time to time, and its disclosure in the corporate governance report.

Corporate Governance Report

Meetings

The Board meets at least four times a year at approximately quarterly intervals. During 2012, the Board held five meetings to review the financial performance, annual and interim results, material investments and other significant matters of the Group. The Bye-laws of the Company provides for the convening of the Board or Board Committee meetings by way of telephonic or similar communications.

The attendance records of the Directors at the Board meetings, Board Committee meetings, the Annual General Meeting ("AGM") and the Special General Meeting ("SGM") for the Financial Year are set out below:

	Attendance/ Number of Meetings (during director's tenure)					
	Board	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**AGM**	**SGM**
Executive Director						
Shi Jian	5/5		1/1		0/1	0/1
Li Yao Min *(Note 1)*	5/5				1/1	1/1
Yu Hai Sheng	5/5				1/1	1/1
Jiang Xu Dong	5/5				1/1	1/1
Shi Pin Ren *(Note 2)*	5/5				1/1	1/1
Zhang Hong Fei	5/5				1/1	1/1
Shi Li Zhou	5/5				1/1	1/1
Non-executive Director						
Cheung Wing Yui	5/5	2/2		1/1	1/1	1/1
Jin Bing Rong	4/5	2/2			1/1	1/1
Independent non-executive Director						
Jiang Xie Fu	5/5	2/2			1/1	1/1
E. Hock Yap *(Note 3)*	2/2	1/1			0/1	0/0
Zhuo Fu Min	4/5	1/2	1/1	1/1	1/1	1/1
Yuan Pu	4/5		1/1		1/1	1/1
Chan, Charles Sheung Wai *(Note 4)*	2/2	1/1		0/0	0/0	1/1

Note:

1. Mr. Li Yao Min resigned as an Executive Director on 1 April 2013.
2. Mr. Shi Pin Ren resigned as an Executive Director on 27 December 2012.
3. Mr. E. Hock Yap retired as an INED and ceased to be the chairman of the Remuneration Committee and a member of the Audit Committee on 29 May 2012.
4. Mr. Chan, Charles Sheung Wai was appointed as an INED, the chairman of the Remuneration Committee and a member of the Audit Committee on 10 July 2012.

Apart from regular Board meetings, the chairman also held a meeting with non-executive directors (including INEDs) without the presence of Executive Directors during the Financial Year.

Board papers are circulated and the Company Secretary attends all regular board meetings to advise on corporate governance and statutory compliance when necessary. In addition, the Company maintains a procedure for Directors to seek independent professional advice in appropriate circumstances.

Board Committees

The Board has established 3 committees, namely Audit Committee, Remuneration Committee and Nomination Committee, with the Nomination Committee being set up on 27 March 2012. These committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management. Their terms of reference had been updated during the year in line with the CG Code and are available on the websites of the Company and the HKEx. The Company has provided sufficient resources to the Board Committees to perform their duties.

Corporate Governance Report

Remuneration Committee

The Company has set up a remuneration committee ("RC") with a majority of the members thereof being INEDs. The RC schedules to meet at least once a year, and the quorum necessary for the transaction of business is two. The RC comprises three members, the chairman and members of the RC during the Financial Year were as follows:

Independent Non-executive Directors
Mr. Chan, Charles Sheung Wai – Chairman (appointed on 10 July 2012)
Mr. E. Hock Yap – Chairman (retired on 29 May 2012)
Mr. Zhuo Fu Min – Member

Non-executive Director
Mr. Cheung Wing Yui – Member

During the financial year, the Company temporarily failed to comply with Rule 3.25 of the Listing Rules, details of which has been disclosed in the section of "Independent Non-executive Directors" on page 38 of this Annual Report.

The principal duties of the RC include, among other things:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- making recommendations to the Board on the remuneration packages of individual Directors and senior management;
- making recommendations to the board on the remuneration of non-executive directors;
- considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;
- reviewing and approving compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- ensuring that no director or any of his associates is involved in deciding his own remuneration.

The RC should consult the Chairman and/or chief executive about their remuneration proposals for other executive Directors and have assess to independent professional advice if necessary.

In 2012, the RC held one meeting to review the Company's remuneration policies, its terms of service contracts and the performance of executive directors, and to consider the terms of appointment letters to be entered with the independent non-executive directors. The attendance record of each committee member is shown on page 39 under the section "Meetings".

Corporate Governance Report

Audit Committee

The Company established an audit committee ("AC") on 12 November 2001. The AC comprises five members, the chairman and members of the AC during the Financial Year were as follows:

Independent Non-executive Directors
Mr. Jiang Xie Fu – Chairman
Mr. Zhuo Fu Min – Member
Mr. Chan, Charles Sheung Wai – Member (appointed on 10 July 2012)
Mr. E. Hock Yap – Member (retired on 29 May 2012)

Non-executive Directors
Mr. Jin Bing Rong – Member
Mr. Cheung Wing Yui – Member

During the financial year, the Company temporarily failed to comply with Rule 3.21 of the Listing Rules, details of which has been disclosed in the section of "Independent Non–executive Directors" on page 38 of this Annual Report.

The major duties of the AC include:

- to consider and recommend the appointment, re-appointment and removal of external auditor;
- to approve the remuneration and terms of engagement of external auditor, any questions of resignation or dismissal of that auditor;
- to review and monitor external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services and to make recommendation of any measures for improvements to be taken;
- to review the interim and annual financial statements and the quarterly, interim and annual reports before submission to the Board;
- to review the Group's financial controls, internal control and risk management systems and ensure that the management has discharged its duty to have an effective internal control system;
- to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- to review and consider the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget.
- to consider any significant or unusual items that are, or may need to be, reflected in reports and accounts and must give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and to review and monitor the effectiveness of the internal audit function;

Corporate Governance Report

- to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response and to ensure that the Board will provide a timely response to the issues raised; and

- to review the Group's financial and accounting policies and practices.

The AC has explicit authority to investigate into any matter under the scope of its duties and the authority to obtain independent professional advice. It is given full access to reasonable resources and assistance from the management to discharge its duties properly.

In 2012, the AC held two meetings to among other things review the interim and annual results of the Group respectively. The AC has reviewed the Group's significant internal controls and financial matters and discussed with management and external auditor, Messrs. Ernst & Young ("EY") of the Company. AC has also reviewed the audit plans and findings of EY, EY's independence, the Group's accounting principles and practices, Listing Rules and statutory compliance, internal controls and risk management. The attendance record of each committee member is shown on page 39 under the section of "Meetings".

The AC had met EY twice during the Financial Year. There was no disagreement between the Board and the AC regarding the selection and appointment of external auditors. The AC is satisfied that EY is able to meet the audit obligations of the Company and recommends to the Board the re-appointment of EY as the Company's external auditor subject to the approval of the shareholders at the forthcoming AGM of the Company.

Nomination Committee

The Company has established a nomination committee ("NC") on 27 March 2012. The NC consists of not less than three members and a majority of the Members shall be INEDs of the Company. The Chairman of the NC shall be appointed by the Board and shall be the Chairman of the Board or an INED. The members of the NC shall comprise such directors of the Company appointed by the Board. The NC comprises three members, the chairman and members of the NC during the Financial Year were as follows:

Chairman of the Board
Mr. Shi Jian – Chairman

Independent Non-executive Directors
Mr. Zhuo Fu Min – Member
Mr. Yuan Pu – Member

The major duties of the NC include:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on selection of individual nominated for directorships;

- to assess the independence of the independent non-executive directors;

- to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive; and

- to determine the policy for nomination of directors.

Corporate Governance Report

In 2012, the NC held one meeting. The NC had reviewed the structure, size and composition of the Board of Directors of the Company and considered the retirement and re-appointment of the Directors in the Company's forthcoming annual general meeting. The attendance record of each committee member is shown on page 39 under the Section of "Meetings".

Appointment, Re-election and Removal of Directors

Pursuant to the letters of appointment, all Non-executive Directors and INEDs are appointed for a term of around two years subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Bye-laws.

The procedures and processes of appointment, re-election and removal of Directors are laid down in the Bye-laws of the Company. Recommendations for appointments and re-appointments of Directors and appointments of the members of various Board Committees are made by the NC and considered by the Board as a whole. The Bye-laws of the Company provides that one-third of the Directors (including non-executive Directors) for the time being (or, if the number is not a multiple of three, the number nearest to but not less than one-third), who have been longest in office since their last re-election or appointment, shall retire from office by rotation at each AGM of the Company. Each Director should retire at least once every three years. A retiring Director is eligible for re-election by the shareholders of the Company at the AGM. In addition, any Director so appointed by the Board shall hold office only until the next following annual general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in case of an addition to the Board), and shall then be eligible for re-election at the meeting.

Mr. Yu Hai Sheng, Mr. Jin Bing Rong, Mr. Jiang Xie Fu and Mr. Zhuo Fu Min will be retiring by rotation pursuant to the bye-law 87 of Bye-laws and Mr. Wang Zi Xiong and Mr. Chan, Charles Sheung Wai will be retiring pursuant to bye-law 86(2) of the Bye-laws at the forthcoming AGM. The retiring Directors are eligible for re-election at the forthcoming AGM. The NC recommends re-election of the retiring Directors after assessing their contribution and performance.

Directors' Training and Commitment

Upon appointment, each Director receives appropriate induction training and coaching to develop individual skills as required. The Directors are also provided with updates on the relevant new laws, regulations and changing commercial risks in the Group's operating environment through regular presentations and meetings. They also have the opportunity to visit the Group's operational facilities and meet with management to gain a better understanding of business operations and governance practices.

Corporate Governance Report

The Directors confirmed that they have complied with the Code Provision A.6.5 of the HK Code on Directors' training. During the Financial Year, all Directors have participated in continuous professional development by attending seminars, in-house briefing or reading materials on the following topics to develop and refresh their knowledge and skills and provided their records of training to the Company.

	Topics		
Name of Director	**Legal, Regulatory and Corporate Governance**	**Group's Business**	**Director' Roles, Functions and Duties**
Executive Director			
Shi Jian	✓	✓	✓
Li Yao Min (resigned on 1 April 2013)	✓	✓	✓
Yu Hai Sheng	✓	✓	✓
Jiang Xu Dong	✓	✓	✓
Zhang Hong Fei	✓	✓	✓
Shi Li Zhou	✓	✓	✓
Non-executive Directors			
Cheung Wing Yui	✓	✓	✓
Jin Bing Rong	✓	✓	✓
Independent non-executive Director			
Jiang Xie Fu	✓	✓	✓
Zhuo Fu Min	✓	✓	✓
Yuan Pu	✓	✓	✓
Chan, Charles Sheung Wai (appointed on 10 July 2012)	✓	✓	✓

Confirmation has been received from the Directors that they have provided sufficient time and attention to the affairs of the Group. Besides, Directors have been disclosing to the Company their interests as director and other office in other public companies and organisations in a timely manner and update the Company on any subsequent changes.

Directors' and Officers' Liabilities

The Company has arranged appropriate liability insurance to indemnify its Directors and officers for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the financial year, no legal action was made against any of our Directors and officers in relation to duties performed for the Company.

Company Secretary

The Company Secretary is responsible for ensuring that board procedures comply with all applicable laws, rules and regulations and advising the Board on corporate governance matters. Moreover, the Company Secretary is responsible for keeping all Directors updated on Listing Rules, regulatory requirements, as well as internal codes of conduct of the Company. During the year under review, the Company Secretary has taken not less than 15 hours of relevant professional training.

Directors' responsibilities for the Financial Statements

The responsibility of the Directors is to prepare the financial statements, while the responsibility of the auditors is to express an opinion on the Group consolidated financial statements based on their audit, for particulars please refer to the "Independent Auditors' Report" section of this report. The Board should ensure such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for the relevant financial period. In regard of this, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the Financial Statements on a going concern basis. Besides, the Directors are also responsible for ensuring that the Group operates an efficient financial reporting system, keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Group has employed sufficient qualified staff to assist the preparation of financial statements.

Corporate Governance Report

Internal Control and Risk Management

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to help the business to achieve its objectives, safeguards assets against unauthorised use or disposition, ensures the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensures compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

Auditors' Remuneration

During the year, the auditors of the Company, EY charged RMB4,180 thousand (equivalent to HK$5,137 thousand)for audit services and RMB500 thousand (equivalent to HK$615 thousand) for non-audit services relating to issuance of rights shares and disposal of Go High Investments Limited.

Investor Relations

The Company uses a number of formal communications channels to account to shareholders and investors for the performance of the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or special general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the website of the Company; (iv) the Company's website offering a communication channels between the Company and its shareholders and investors; and (v) the Company's share registrars in Hong Kong serving the shareholders regarding all share registration matters.

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to shareholders in a timely manner and on a regular basis through the publication of interim and annual reports and/or dispatching circular, notices, and other announcements.

During the year, there is no change in the Company's constitutional documents.

Shareholders' Right to Convene and Put Forward Proposals at Special General Meetings

Pursuant to the Company's Bye-laws, members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall all times have the right, by written requisition to the Board and the Secretary of the Company at the business address or registered office address which are set out in Corporate Information of this Annual Report, to request a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Corporate Information

Board of Directors

Shi Jian *(Chairman)*
Li Yao Min (resigned on 1 April 2013)
Yu Hai Sheng *(Co-Chairman & Chief Executive Officer)*
Jiang Xu Dong *(Vice-Chairman & Chief Operation Officer)*
Wang Zi Xiong *(Vice-Chairman & Chief Financial Officer)*
(appointed on 1 April 2013)
Zhang Hong Fei
Shi Li Zhou
Cheung Wing Yui*
Jin Bing Rong *
Jiang Xie Fu**
Zhuo Fu Min**
Yuan Pu**
Chan, Charles Sheung Wai**

* Non-executive Directors
** Independent Non-executive Directors

Authorized Representatives

Shi Jian
Li Yao Min (resigned on 1 April 2013)
Yu Hai Sheng (appointed on 1 April 2013)

Company Secretary

Hui Sze Wai, Sylvie

Legal Adviser

Woo, Kwan, Lee & Lo

Auditor

Ernst & Young

Principal Bankers

Hong Kong:	CITIC Bank International Limited The Agricultural Bank of China
PRC:	The Agricultural Bank of China The Industrial and Commercial Bank of China The Bank of China Shanghai Pudong Development Bank China Minsheng Bank

Corporate Information

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong Office

Room 2501, 25th Floor, Office Tower, Convention Plaza,
1 Harbour Road, Wanchai, Hong Kong.

Principal Registrar and Transfer Office

Butterfield Corporate Services Ltd
Rosebank Centre
11 Bermudiana Road
Pembroke, Bermuda

Hong Kong Branch Registrar and Transfer Office

Tricor Tengis Limited
Share Registration
26/F, Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

Stock Code

1207

Internet Web Site

www.sre.com.cn

E-mail

general@sregroup.com.hk

Independent Auditors' Report

To the shareholders of SRE Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of SRE Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 50 to 158, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong
27 March 2013

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

	Notes	2012	2011
CONTINUING OPERATIONS			
Revenue	5	**3,343,016**	5,871,403
Cost of sales	7	**(2,442,884)**	(4,463,648)
Gross profit		**900,132**	1,407,755
Other gains – net	6	**271,675**	217,526
Selling and marketing expenses	7	**(79,238)**	(81,199)
Administrative expenses	7	**(236,120)**	(218,425)
Operating profit		**856,449**	1,325,657
Finance income	8	**35,779**	116,796
Finance costs	9	**(298,677)**	(473,233)
Finance costs – net		**(262,898)**	(356,437)
Share of profits and losses of associates		**7,084**	6,845
Profit before tax from continuing operations		**600,635**	976,065
Income tax expense	12	**(188,231)**	(314,123)
Profit for the year from continuing operations		**412,404**	661,942
DISCONTINUED OPERATION			
Loss for the year from discontinued operation	14	**(104,634)**	(242,943)
Profit for the year		**307,770**	418,999
Other comprehensive income			
Exchange differences on translation of financial statements into presentation currency		**(35,184)**	587,590
Other comprehensive income for the year, net of tax		**(35,184)**	587,590
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**272,586**	1,006,589

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

	Notes	2012	2011
Profit attributable to:			
Owners of the parent		367,307	496,707
Non-controlling interests		(59,537)	(77,708)
		307,770	418,999
Total comprehensive income attributable to:			
Owners of the parent	13	349,018	955,351
Non-controlling interests		(76,432)	51,238
		272,586	1,006,589
Earnings per share attributable to ordinary equity holders of the parent	16		
Basic			
– For profit for the year		HK$6.85 cents	HK$11.41 cents
– For profit from continuing operations		HK$8.07 cents	HK$14.33 cents
Diluted			
– For profit for the year		HK$6.85 cents	HK$11.41 cents
– For profit from continuing operations		HK$8.07 cents	HK$14.33 cents

Details of the dividends paid and proposed are disclosed in Note 15 to the financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

Statements of Financial Position

31 December 2012 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	Group 2012	Group 2011	Company 2012	Company 2011
ASSETS					
Non-current assets					
Property, plant and equipment	17	**814,927**	3,000,131	**1,472**	2,147
Completed investment properties	18	**4,792,658**	6,604,711	**–**	–
Investment properties under construction	18	**–**	123,350	**–**	–
Prepaid land lease payments	19	**141,391**	507,906	**–**	–
Goodwill	20	**648,399**	648,558	**–**	–
Investments in subsidiaries	21(a)	**–**	–	**4,971,393**	5,403,327
Advances to subsidiaries	21(b)	**–**	–	**1,337,422**	2,788,543
Investments in joint ventures	22	**–**	48,241	**–**	–
Investments in associates	23	**76,533**	77,372	**–**	–
Derivative financial asset	38	**74,608**	54,027	**–**	–
Deferred tax assets	36	**533,616**	604,208	**–**	–
Non-current trade receivables	29	**–**	86,225	**–**	–
Non-current prepayments	27	**192,000**	821,086	**–**	–
Other non-current assets	24	**–**	58,561	**–**	–
		7,274,132	12,634,376	**6,310,287**	8,194,017
Current assets					
Prepaid land lease payments	19	**11,260,559**	12,418,981	**–**	–
Properties held or under development for sale	25	**6,932,167**	8,095,259	**–**	–
Land development for sale	26	**–**	6,366,044	**–**	–
Inventories		**11,487**	18,234	**–**	–
Dividends receivable from subsidiaries		**–**	–	**2,295,550**	929,938
Prepayments and other current assets	27	**175,462**	372,213	**4,355**	3,293
Other receivables	28	**1,409,084**	945,266	**–**	–
Trade receivables	29	**31,121**	102,252	**–**	–
Prepaid income tax		**229,074**	181,805	**–**	–
Cash and bank balances	30	**2,032,007**	2,521,487	**20,724**	69,320
		22,080,961	31,021,541	**2,320,629**	1,002,551
Total assets		**29,355,093**	43,655,917	**8,630,916**	9,196,568

Statements of Financial Position

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

	Notes	Group 2012	Group 2011	Company 2012	Company 2011
EQUITY AND LIABILITIES					
EQUITY					
Issued capital and premium	31	**6,000,738**	5,791,714	**6,000,738**	5,791,714
Other reserves	32	**1,695,316**	1,689,923	**1,209,151**	1,227,993
Retained profits/(accumulated loss)	32	**1,361,940**	3,006,887	**6,861**	(42,545)
Equity attributable to owners of the parent		**9,057,994**	10,488,524	**7,216,750**	6,977,162
Non-controlling interests		**704,340**	2,485,979	**–**	–
Total equity		**9,762,334**	12,974,503	**7,216,750**	6,977,162
LIABILITIES					
Non-current liabilities					
Interest-bearing bank and other borrowings	33	**6,670,834**	10,200,708	**188,475**	–
Convertible bonds – host debts	37	**7,183**	–	**7,183**	–
Guaranteed senior notes	34	**–**	559,646	**–**	559,646
Deferred income from sale of golf club membership	35	**–**	643,746	**–**	–
Deferred tax liabilities	36	**1,900,302**	2,241,957	**–**	–
		8,578,319	13,646,057	**195,658**	559,646
Current liabilities					
Interest-bearing bank and other borrowings	33	**4,403,928**	3,763,889	**649,960**	1,124,880
Convertible bonds – host debts	37	**–**	515,814	**–**	515,814
Advances received from the pre-sale of properties under development	39	**1,495,886**	2,565,079	**–**	–
Trade payables	40	**2,064,672**	5,259,024	**–**	–
Other payables and accruals	41	**871,367**	2,001,353	**7,009**	19,066
Current income tax liabilities		**1,617,048**	2,216,346	**–**	–
Guaranteed senior notes	34	**561,539**	–	**561,539**	–
Deferred income arising from land development	35	**–**	713,852	**–**	–
		11,014,440	17,035,357	**1,218,508**	1,659,760
Total liabilities		**19,592,759**	30,681,414	**1,414,166**	2,219,406
Total equity and liabilities		**29,355,093**	43,655,917	**8,630,916**	9,196,568
Net current assets/(liabilities)		**11,066,521**	13,986,184	**1,102,121**	(657,209)
Total assets less current liabilities		**18,340,653**	26,620,560	**7,412,408**	7,536,808

The accompanying notes are an integral part of these consolidated financial statements.

Shi Jian	**Yu Hai Sheng**
Chairman	Co-Chairman and Chief Executive Officer

Consolidated Statement of Changes in Equity

Year ended 31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

	Attributable to owners of the parent										
	Issued capital and premium (Note 31)	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Equity component of convertible bonds	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2012	5,791,714	1,211*	248*	291,131*	1,478,517*	(260,545)*	179,361*	3,006,887	10,488,524	2,485,979	12,974,503
Total comprehensive income for the year	–	–	–	–	(18,289)	–	–	367,307	349,018	(76,432)	272,586
Surplus reserve transfer to retained profits due to disposal of a subsidiary	–	–	–	(2,001)	–	–	–	2,001	–	–	–
Appropriation from retained profits	–	–	–	31,006	–	–	–	(31,006)	–	–	–
Issuance of rights shares	209,024	–	–	–	–	–	–	–	209,024	–	209,024
Equity-settled share options to management of CNTD	–	–	–	–	–	1,665	–	–	1,665	893	2,558
Disposal of a subsidiary (Note 46 (b))	–	–	–	–	–	–	–	–	–	(24,646)	(24,646)
Change due to decrease in equity interests in CNTD (Note 21 (a) (ii))	–	–	–	–	–	(168,559)	–	–	(168,559)	371,022	202,463
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	2,458	2,458
The portion of redemption price of CB4 allocated to its equity component (Note 37 (a))	–	–	–	–	–	–	(7,170)	–	(7,170)	–	(7,170)
Transfer upon partial redemption of CB4 (Note 37 (a))	–	–	–	–	–	169,381	(169,381)	–	–	–	–
Dividends attributed to non-controlling interest	–	–	–	–	–	–	–	–	–	(27,584)	(27,584)
Transfer upon the expiration of the share option scheme (Note 31)	–	–	(248)	–	–	248	–	–	–	–	–
Capital contribution by Parent (Note 28(a))	–	–	–	–	–	168,741	–	–	168,741	–	168,741
Disposal of CNTD via a distribution in species (Note 1 and Note 14)	–	–	–	–	–	–	–	(1,983,249)	(1,983,249)	(2,027,350)	(4,010,599)
At 31 December 2012	6,000,738	1,211*	–	320,136*	1,460,228*	(89,069)*	2,810*	1,361,940	9,057,994	704,340	9,762,334

Consolidated Statement of Changes in Equity

Year ended 31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

	Attributable to owners of the parent										
	Issued capital and premium (Note 31)	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Equity component of convertible bonds	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2011	4,736,489	2,268	248	259,266	1,019,873	(318,523)	179,361	2,665,801	8,544,783	2,782,378	11,327,161
Total comprehensive income for the year	–	–	–	–	458,644	–	–	496,707	955,351	51,238	1,006,589
Revaluation reserve transfer to retained profits upon sale of properties	–	(1,057)	–	–	–	–	–	1,057	–	–	–
Appropriation from retained profits	–	–	–	31,865	–	–	–	(31,865)	–	–	–
Issuance of new shares	562,487	–	–	–	–	–	–	–	562,487	–	562,487
Equity-settled share options to management of CNTD	–	–	–	–	–	4,323	–	–	4,323	2,017	6,340
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	25,982	25,982
Acquisition of non-controlling interests	–	–	–	–	–	43,409	–	–	43,409	(346,793)	(303,384)
Fair value of capital contribution from controlling shareholder resulting from its subscription of a convertible bond ("CB5") (Note 36(b))	–	–	–	–	–	10,246	–	–	10,246	–	10,246
Issuance of shares upon conversion of convertible bonds ("CB5") (Note 36(b))	429,448	–	–	–	–	–	–	–	429,448	–	429,448
Final 2010 dividend declared	63,290	–	–	–	–	–	–	(124,813)	(61,523)	–	(61,523)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(28,843)	(28,843)
At 31 December 2011	5,791,714	1,211*	248*	291,131*	1,478,517*	(260,545)*	179,361*	3,006,887	10,488,524	2,485,979	12,974,503

* These reserve accounts comprised the consolidated reserves of HK$1,695,316 thousand (2011: HK$1,689,923 thousand) in the consolidated statement of financial position.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	42	(1,108,032)	(1,907,041)
Interest paid		(1,052,068)	(924,124)
Income tax paid		(278,641)	(611,065)
Net cash flows used in operating activities		(2,438,741)	(3,442,230)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(158,924)	(792,893)
Proceeds from disposal of property, plant and equipment		2,038	4,957
Payments for investment properties		(13,729)	(96,158)
Acquisition of a subsidiary, net of cash acquired	45	(24,040)	(8,819)
Investments in joint ventures		(23,965)	(48,315)
Investment in an associate		–	(2,748)
Disposal of subsidiaries	46	31,947	22,546
Decrease in time deposits with original maturity of over three months		2,468	268,567
Dividends received from associates		7,642	16,071
Interest received		32,552	51,249
Net cash flows used in investing activities		(144,011)	(585,543)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of convertible bonds		–	546,531
Proceeds from issuance of right shares		209,024	–
Proceeds from placing of new shares of CNTD		202,463	–
Payments for the redemption of CB4		(540,617)	–
Proceeds from issuance of new shares		–	567,000
Share issue expenses		–	(4,513)
Payments of expenses incurred for the listing of existing shares of a subsidiary		–	(5,015)
Cash received upon exercise of management share options granted under Management Grant of a subsidiary		–	2
Acquisition of non-controlling interest and the related derivative financial asset		–	(802,213)
Prepayments for acquisition of equity interest of a subsidiary from a non-controlling shareholder		–	(192,000)
Decrease/(increase) in pledged bank deposits		141,360	(15,402)
Decrease in restricted deposits in relation to bank borrowings		9,324	3,962
Proceeds from short-term borrowings		492,046	329,345
Repayments of short-term borrowings		(403,256)	(129,745)
Proceeds from long-term borrowings		5,358,222	3,394,976
Repayments of long-term borrowings		(2,738,640)	(2,268,245)
Cash received from the capital injection from non-controlling shareholders of subsidiaries		2,458	25,982
Decrease in cash and bank upon disposal of CNTD via a distribution in species	14	(250,669)	–
Dividends paid to non-controlling shareholders of subsidiaries		–	(28,843)
Dividends paid to the Company's shareholders		–	(61,523)
Net cash flows from financing activities		2,481,715	1,360,299
NET DECREASE IN CASH AND CASH EQUIVALENTS		(101,037)	(2,667,474)
Cash and cash equivalents at beginning of year		1,355,995	3,887,304
Effect of foreign exchange rate changes, net		(1,954)	136,165
CASH AND CASH EQUIVALENTS AT END OF YEAR	30	1,253,004	1,355,995

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

1. CORPORATE INFORMATION

SRE Group Limited (the "Company") was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Bermuda Companies Act 1981. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on the Hong Kong Exchange and Clearing Limited (the "HKEx"), the Company became the holding company of the other companies comprising the Group on 12 November 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30 November 1999. The shares of the Company were listed on the HKEx on 10 December 1999. The principal place of business of the Company is located at Room 2501, 25th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong.

Currently, the Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in real estate development, property leasing and hotel operations in Mainland China.

In the opinion of the Directors, as at 31 December 2012, the Company's parent company is SRE Investment Holding Limited (the "SREI"), which holds 55.23% of the Company's shares (52.26% as at 31 December 2011). The remaining 44.77% of the shares are held by various different shareholders.

During 2012, the Company distributed its entire holding of the shares in China New Town Development Company Limited ("CNTD", the Company's former subsidiary, a company listed on the Main Boards of both the HKEx and the Singapore Exchange Securities Trading Limited) to the Company's shareholders (including its parent, SREI) via a special dividend in the form of a distribution in species (the "Distribution", refer to Note 15 for more details). Upon completion of the Distribution, from 3 October 2012, the Group no longer holds any share in CNTD, and hence, CNTD and its subsidiaries (collectively, the "CNTD Group") ceased to be subsidiaries of the Company. However, upon completion of the Distribution, SREI (via its holding of majority shares in the Company) received CNTD's shares and became the largest shareholder of CNTD holding 32.70% of all of its issued share capital and continued to control CNTD Group. Hence, the Company and CNTD became fellow subsidiaries following the Distribution.

CNTD Group is a new town developer in Mainland China and is principally engaged in planning and developing large-scale new towns in China's largest cities. The CNTD Group's operations and cash flows were clearly distinguished from the rest of the Group, hence, the CNTD Group is a discontinued operation. For more details, please refer to Note 14.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for completed investment properties, investment properties under construction and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity, its ability to maintain adequate cash inflow from operations and financing to meet its financial obligations as and when they fall due, and believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

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

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

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

Operating cycle

The operating cycle of the Group is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Due to the nature of the Group's business, the Group's normal operating cycle is longer than 12 months. The Group's current assets include assets (such as properties held or under development for sale and land development for sale) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the end of the reporting period.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except for the following new and revised HKFRSs which the Group adopted for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 –*Transition Guidance*

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*

The adoption of the new and revised HKFRSs has had no significant effect on these financial statements.

Upon early adoption of HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011), the Group has also adopted the consequential amendments to other standards. Those consequential amendments above did not have significant impact on the accounting policies of the Group.

Except for HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011) and the consequential amendments to other standards, the Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements. Currently, the Group expects to adopt them when they become effective.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012

2 Effective for annual periods beginning on or after 1 January 2013

3 Effective for annual periods beginning on or after 1 January 2014

4 Effective for annual periods beginning on or after 1 January 2015

Further information about those HKFRSs that may significantly affect the Group is as follows:

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 (the "Additions"). Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain of hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified. The amendments will affect presentation only and have no significant impact on the financial position or performance.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

Subsidiaries are all those entities over which the Group has power over the investee such that the Group is able to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. The joint control is defined as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. The Group classifies joint arrangements into two types—joint operations and joint ventures, by considering its rights and obligations.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The financial statements of the joint ventures are prepared for the same reporting period as the Group. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post acquisition results and reserves of joint ventures is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Where the profit sharing ratios is different to the Group's equity interest, the share of post-acquisition results of the joint ventures is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures and is not individually tested for impairment.

The results of joint ventures are included in the Company's comprehensive income statement to the extent of dividend received and receivable. The Company's investments in joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Associates

An associate is an entity, not being a subsidiary or a joint arrangement, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post acquisition results and reserves of associates is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

The results of associates are included in the Company's comprehensive income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

 (i) has control or joint control over the Group;

 (ii) has significant influence over the Group; or

 (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Hotel buildings	Shorter of 40 years and the remaining terms of the leases, which range from 30 to 40 years
Other buildings	20 years
Golf operational assets	Golf course between 40 and 50 years, club buildings 30 years, club equipment 10 years, club fixtures and fittings 5 years
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets
Furniture, fitting, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met and it is accounted for as a finance lease. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of comprehensive income in the year of the retirement or disposal.

Investment properties under construction are stated at fair value with changes in fair values recognised in profit or loss.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of comprehensive income.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

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

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

Loans and receivables

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

Available-for-sale financial investments

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, derivative financial instruments, interest-bearing bank loans and other borrowings, guaranteed senior notes, and convertible bonds.

Subsequent measurement

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

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss

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

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

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

Convertible bonds

For convertible bonds which comprise both liability and equity components under HKAS 32, on issuance of convertible bonds, the fair value of the liability component (including host debt and, if any, embedded derivatives other than the equity component) is determined using a market rate for an equivalent non-convertible bond; and the liability component is accounted for as a financial liability, i.e., if there are embedded derivatives that need to be separated, upon initial recognition, the embedded derivatives are separated from the host debt and are carried as derivative financial liabilities at fair value, and the host debt is carried at amortised cost if there is no embedded derivative that needs to be separated, the liability component is carried at amortised cost. The remainder of the proceeds is allocated to the conversion option (the equity component) that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Where the conversion option of a convertible bond does not meet the definition of equity, the convertible bond contains only liability and derivative components. On initial recognition, the entire convertible bond is either designated as a financial liability at fair value through profit or loss or separated into derivative financial liabilities (including all embedded derivatives that should be separated from the host debt) and host debt which are carried at fair value and amortised cost respectively. If the embedded derivatives are separated from the host debt, transaction costs are apportioned between the host debt and derivative components of the convertible bonds based on the allocation of proceeds to the host debt and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the host debt is recognised initially as part of the host debt liability. The portion relating to the derivative component is recognised immediately in the statement of comprehensive income.

Derecognition of financial liabilities

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

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

Fair value of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

(a) Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

(b) Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

(c) Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties held or under development for sale

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value.

The costs of properties held or under development for sale comprise specifically identified cost, including acquisition costs, development expenditures and borrowing costs and other related expenditure directly attributable to the development of such properties. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

Land development for sale of the CNTD Group

Development cost of land development for sale comprises the aggregate cost of development, materials and supplies, capitalised borrowing costs on related borrowing funds during the period of construction and other costs directly attributable to such land development.

Land development for sale is stated at the lower of cost and net realisable value. Net realisable value takes into account the CNTD Group's share of proceeds derived from the sale of land development for sale by government authorities, less costs to completion and the costs to be incurred in realising the revenue derived from the sale of land development for sale based on prevailing market conditions.

Inventories

Inventories mainly comprise food, beverages, operating supplies and low value consumables used in hotel and golf course operations, and are stated at the lower of cost or net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets with similar nature to cash, which are not restricted as to use.

Provisions

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

Revenue recognition

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

Sale of development properties

Revenue from the sale of properties is recognised upon completion of a sale agreement, which refers to the time when properties are completed and delivered to the buyers. Deposits and instalments received on properties sold prior to completion of the respective sale agreements are included as advances received from the pre-sale of properties under development.

Revenue from land development of the CNTD Group

The CNTD Group is given the right to carry out construction and preparation works in respect of land infrastructure and ancillary public facilities (owned by the local governments) within certain districts. When the land plots are sold by the local governments to land buyers through public auction, tender or listing, the CNTD Group is entitled to receive from the local governments a proportion of the proceeds from land sales (including related public utilities fees, if any). As ancillary public facilities are separately identifiable from land infrastructure, such proceeds to be received by the CNTD Group are allocated between land infrastructure and ancillary public facilities based on their relative fair values.

Revenue from land development is recognised upon the transfer of risks and rewards in connection with the land development and when the amount of revenue can be measured reliably, which occurs upon the completion of related construction works as well as sales of land. Accordingly, at the time of the sales of land, proceeds allocated to the completed land infrastructure and completed ancillary public facilities are recognised as revenue, and proceeds allocated to uncompleted construction works are deferred and recognised as revenue when the related construction works are completed.

Golf course operations of the CNTD Group

Revenue from golf course operations represents the income from golf courses and ancillary equipment, golf services, food and beverages and others, which is recognised when the services are rendered or goods are sold.

Golf club membership revenue of the CNTD Group

Golf club membership entitles the members to golf course and related services provided during the membership period or to goods or services charged at prices lower than those charged to non-members. Golf club membership revenue is recognised on the straight-line basis which reflects the expected period when the benefits are provided.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Property leasing under operating lease

Operating lease income from investment properties is recognised on the straight-line basis over the lease term, which is the non-cancellable period for which the lessee has contracted to lease the properties together with any further terms for which the lessee has the option to continue to lease the properties, with or without further payments, when it is reasonably certain that the lessee will exercise the option at the inception of the lease.

Construction of infrastructure for an intelligent network

Revenue from the construction of infrastructure for an intelligent network is recognised as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred and it is probable that such costs incurred will be recovered.

Property management revenue

Property management revenue is recognised in the accounting period in which the services are rendered.

Hotel operations

Revenue from hotel operations represents the income from hotel rooms and the sale of related food and beverages, which is recognised when the services are rendered or goods are sold.

Interest income

Interest income is recognised on an accrual basis using the effective interest method.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established.

Share-based payments

A former subsidiary of the Company, CNTD (see Note 1), operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the CNTD Group's operations. Employees (including senior executives) of CNTD receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by the Group with assistance from the valuer using an appropriate pricing model.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the CNTD Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

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

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

Other employee benefits

Employee retirement scheme

The employees of the Group's entities which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute 14% to 22% (2011: 14% to 22%) of the standard salary announced by the government to the central pension scheme. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme. In addition, the Group participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's basic salaries are made by the employer and the Hong Kong employees, respectively. The provision and contributions have been included in the statement of comprehensive income upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a weighted average capitalisation rate has been applied to the expenditure on the individual assets.

Government grants

Government grants (including non-monetary grants) are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is deducted from the relevant asset before arriving at the carrying amount of the asset and released to the statement of comprehensive income by way of a reduced cost of assets' charge. Grants received in connection with the Group's role in planning and constructing the ancillary public facilities are deducted from the development cost of the ancillary public facilities and would be recognised indirectly in the form of an increased profit margin over the course of recognising revenue in connection with the ancillary public facilities services.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

For a distribution of non-cash assets to shareholders, the Group measures the liability to distribute non-cash assets as a dividend to its shareholders at net carrying amount of the assets to be distributed when the non-cash asset is ultimately controlled by the same parties both before and after the distribution.

Foreign currencies

(a) Functional and presentation currencies

Items included in the financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's and its subsidiaries' functional currency is Renminbi ("RMB"), as the major revenues are derived from operations in Mainland China. Considering the Company is listed on the HKEx, the Hong Kong dollar ("HK$") is chosen as the presentation currency to present these financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

(b) Transactions and balances

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of the Group are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period;

(ii) income and expenses of the Group are translated into the presentation currency at the average exchange rates for the period (unless such average rates are not the reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated into the presentation currency at the exchange rates ruling at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

For the purpose of the consolidated statement of cash flows, the cash flows of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of which arise throughout the year are translated into the presentation currency at the weighted average exchange rates for the year.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, if any, and all monetary items that provide an effective hedge for such investments, if any, are recognised in other comprehensive income. When a foreign operation is disposed of, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

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

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group. Contingent liabilities (except for contingent liability recognised in a business combination) and assets are not recognised on the statement of financial position of the Group and the Company.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was HK$648 million (2011: HK$649 million).

For details of goodwill, please see Note 20.

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period during the years ended 31 December 2012 and 31 December 2011 using the term and reversion method on the basis of capitalisation of net rental income derived from the existing tenancies with due allowance for reversionary income potential of the property interest, direct capitalisation method by assuming a stabilised economic income capitalised by a market yield rate and direct comparison approach by making reference to the sales transactions of the comparable properties by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

Investment properties under construction are also carried at fair value as determined by independent professional qualified valuers, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost. The fair value of investment properties under construction is determined using the residual method.

For details of change in fair values of investment properties and investment properties under construction in 2012, please see Note 18.

Carrying amount of land development for sale and properties under development for sale

The Group's land development for sale and properties under development for sale are stated at the lower of cost and net realisable value.

Based on the CNTD Group's recent experience and the nature of the subject land development, the CNTD Group makes estimates of cost allocated to each parcel of land infrastructure and attributable to ancillary public facilities and infrastructure, and its net realisable value, i.e., the revenue to be derived from the sale of land development for sale by government authorities, less costs to completion and the costs to be incurred in realising the revenue from the sale of land development for sale based on prevailing market conditions.

The costs of properties under development for sale comprise specifically identified costs, including acquisition costs, development expenditures and borrowing costs and other related expenditure directly attributable to the development of such properties. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Carrying amount of land development for sale and properties under development for sale (continued)

If the cost is higher than the estimated net realisable value, provision for the excess of cost of land development for sale and properties under development for sale over their net realisable values should be made. Such provision would require the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for land development for sale and properties under development for sale in the periods in which such estimate is changed will be adjusted accordingly.

Deferred tax assets, liabilities and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the domicile of the respective group entity.

Deferred tax assets are recognised for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed.

For details of deferred tax assets and liabilities and income tax, please see Note 36 and Note 12.

Impairment of receivables

Impairment of receivables is made based on assessment of the recoverability of receivables. The identification of impairment of receivables requires management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimation, such difference will have impact on the carrying value of the receivables and impairment of receivables/reversal of impairment in the period in which such estimate has been changed.

For details of estimated impairment of receivables in 2012, please see item (c) in Note 28.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. Such estimates could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or management will write off or write down technically obsolete assets that have been abandoned.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful lives and impairment of property, plant and equipment (continued)

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in Note 2.4. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs to sell and the value in use, where the calculations of which involve the use of estimates.

For details of property, plant and equipment, please see Note 17.

Measurement of revenue from land development of the CNTD Group

Revenue from the development of land infrastructure and ancillary public facilities (owned by the local governments) is allocated and recognised separately. The allocation of revenue from the land development to land infrastructure and ancillary public facilities is based on their relative fair values of the construction works, determined by reference to the relative estimated construction costs of each component, as the nature of construction works for the components is similar.

Revenue attributable to land infrastructure is recognised in full upon the sale of the relevant land use rights and the specific construction works are completed. However, revenue attributable to ancillary public facilities is recognised for the portions of ancillary public facilities completed at the sale of the land. The remaining revenue attributable to uncompleted portions of ancillary public facilities is recognised as deferred revenue as a current liability in the statements of financial position, and will be recognised as revenue when the related construction works are completed.

Estimation of fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, separated derivative components of the convertible bonds) is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

The fair values of the convertible bonds (including the values allocated the host debt, conversion options classified either as a financial liability or equity and other derivatives embedded in the convertible bonds that need to be separately accounted for) that need to be accounted for at fair value at initial recognition (or subsequently if there is any embedded derivative that needs to be separately accounted for) that cannot be derived from active markets are determined using valuation techniques including the discounted cash flow method and option price models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as credit risk, market risk and volatility. Changes in assumptions about these factors could affect the reported carrying values of such financial instruments.

For details of estimated fair values of derivatives and other financial instruments, please see Notes 37, 38 and 49.

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

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

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- The property development segment develops and sells residential and commercial properties;
- The property leasing segment leases offices and commercial properties owned by the Group which are classified as investment properties;
- The hotel operations segment provides hotel accommodation, hotel catering and conference hall services; and
- The corporate and other operations segment comprises, principally, the provision of property management services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss before tax from continuing operations and is measured consistently with operating profit or loss before tax from continuing operations in the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

As a result of the Distribution (see Note 1), the CNTD Group's business is considered as a discontinued operation (see Note 14). Accordingly, the CNTD Group is excluded from the segment information presented below for both years.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties.

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4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows:

	2012				
	Property development	Property leasing	Hotel operations	Corporate and other operations	Total
Segment revenue					
Sales to external customers	2,881,251	146,735	183,749	131,281	3,343,016
Intersegment sales	–	–	–	297,122	297,122
	2,881,251	146,735	183,749	428,403	3,640,138
Reconciliation:					
Elimination of intersegment sales					(297,122)
Revenue from continuing operations					3,343,016
Segment profit/(loss)	624,916	28,479	(50,371)	253,425	856,449
Finance income					35,779
Finance costs					(298,677)
Finance costs – net					(262,898)
Share of profits and losses of associates					7,084
Profit before tax from continuing operations					600,635
Segment assets and liabilities					
Segment assets	22,879,535	4,877,674	897,402	623,949	29,278,560
Investments in associates					76,533
Total assets					29,355,093
Segment liabilities	14,932,864	2,106,378	452,432	2,101,085	19,592,759
Total liabilities	14,932,864	2,106,378	452,432	2,101,085	19,592,759
Other segment information:					
Depreciation and amortisation	12,547	327	92,045	1,711	106,630
Capital expenditure*	761	4,968	38,681	480	44,890
Fair value gain on derivative financial assets, net	–	–	–	20,524	20,524
Fair value loss on investment properties, net	–	40,715	–	–	40,715
Provision for impairment of other receivables	–	–	–	910	910

* Capital expenditure consists of additions of property, plant and equipment (HK$40,114 thousand) and investment properties (HK$4,776 thousand).

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows (continued):

	2011				
	Property development	Property leasing	Hotel operations	Corporate and other operations	Total
Segment revenue					
Sales to external customers	5,416,990	153,707	192,897	107,809	5,871,403
Intersegment sales	–	–	–	427,012	427,012
	5,416,990	153,707	192,897	534,821	6,298,415
Reconciliation:					
Elimination of intersegment sales					(427,012)
Revenue from continuing operations					5,871,403
Segment profit/(loss)	1,112,633	240,984	(83,094)	55,134	1,325,657
Finance income					116,796
Finance costs					(473,233)
Finance costs – net					(356,437)
Share of profits and losses of associates					6,845
Profit before tax from continuing operations					976,065
Segment assets and liabilities					
Segment assets	22,695,541	5,907,458	1,182,445	533,201	30,318,645
Investments in associates					77,125
Segment assets					30,395,770
Reconciliation:					
Assets related to a discontinued operation					13,260,147
Total assets					43,655,917
Segment liabilities	15,865,506	2,890,285	36,004	2,534,942	21,326,737
Reconciliation:					
Liabilities related to a discontinued operation					9,354,677
Total liabilities					30,681,414
Other segment information:					
Depreciation and amortisation	10,208	266	120,057	1,751	132,282
Capital expenditure*	5,021	16,622	1,055	1,921	24,619
Fair value gain on derivative financial assets, net	–	–	–	105,765	105,765
Fair value gain on investment properties, net	–	169,898	–	–	169,898
Impairment of goodwill	55,562	–	–	–	55,562
Provision for impairment of other receivables	–	–	–	1,705	1,705

* Capital expenditure consists of additions of property, plant and equipment (HK$8,558 thousand) and investment properties (HK$16,061 thousand).

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) All the sales from continuing operations to external customers of the Group are generated from Mainland China.

(b) Non-current assets

As of 31 December 2012, more than 99% (2011: more than 99%) of the Group's non-current assets of continuing operations (based on the locations of the assets and excludes financial instruments and deferred tax assets) were located in Mainland China.

Information about major customers

The Group's customers from whom the revenue of continuing operations derived are widely dispersed. No customer nor a single group of customers which are known to be under common control of continuing operations contributed 10% or more of the Group's revenue for the years ended 31 December 2012 and 2011.

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; room charges from hotel operations and gross rental income received and receivable from investment properties during the year.

An analysis of revenue from the continuing operations is as follows:

	2012	2011
Sale of development properties	**3,048,113**	5,731,745
Hotel operations	**194,748**	204,507
Revenue from property leasing (Note 18)	**143,221**	150,867
Property management revenue	**144,110**	131,641
Revenue from construction of infrastructure for an intelligent network	**2,331**	4,250
Other revenue	**17,834**	5,832
	3,550,357	6,228,842
Less: Business tax and surcharges	**(207,341)**	(357,439)
Total revenue	**3,343,016**	5,871,403

Business tax and surcharges

Business tax is calculated at 5% of the revenue from the sale of properties, hotel operations, the provision of property management services and property leasing and at 3% of the net income received from the construction of infrastructure for an intelligent network after deducting amounts payable to subcontractors.

Government surcharges, comprising City Maintenance and Construction Tax, Education Surtax and River Way Management Fee, are calculated at certain percentages of business tax.

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

6. OTHER GAINS – NET

An analysis of other gains – net from the continuing operations is as follows:

	2012	2011
Fair value (loss)/gain on investment properties, net (Note 18)	(40,715)	169,898
Fair value gain on derivative instruments at fair value through profit or loss, net	20,524	105,765
Gain/(loss) on disposal of property, plant and equipment, net	1,106	(23)
Gain on disposal of a subsidiary (Note 46 (a))	273,428	309
Impairment of goodwill (Note 20)	–	(55,562)
Bad debt provision for other receivables	(910)	(1,705)
Donation	(74)	(91)
Gain on redemption of CB4 (Note 37)	7,170	–
Others	11,146	(1,065)
	271,675	217,526

7. EXPENSE BY NATURE

An analysis of expense by nature from the continuing operations is as follows:

	2012	2011
Cost of inventories sold (excluding depreciation)	2,354,544	4,344,667
Depreciation of property, plant and equipment (Note 17)	100,837	124,598
Employee benefit expense (including directors' and chief executive's emoluments):		
– Wages and salaries	86,699	91,639
– Other social welfare	22,218	22,928
	108,917	114,567
Operating lease payments in respect of buildings	7,368	6,091
Auditors' remuneration	5,752	5,049
Commission for sale of properties	14,664	8,392
Advertising costs	47,257	43,583
Miscellaneous tax	41,644	43,812
Transportation fee	10,777	14,118
Office expenses	7,104	5,353
Exhibition fees	3,129	6,464
Water and electricity costs	5,007	4,754
Business entertainment expenses	7,997	8,789
Expenses incurred for the issuance of CB5	–	3,469
Others	43,245	29,566
	2,758,242	4,763,272

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

8. FINANCE INCOME

An analysis of finance income from the continuing operations is as follows:

	2012	2011
Interest income on bank deposits	34,589	39,674
Net foreign exchange gain	1,190	77,122
	35,779	116,796

9. FINANCE COSTS

An analysis of finance costs from the continuing operations is as follows:

	2012	2011
Interest expense:		
Interest on bank borrowings and other borrowings		
– wholly repayable within five years	465,154	431,817
Interest on bank borrowings and other borrowings		
– wholly repayable beyond five years	290,914	252,317
Interest on the guaranteed senior notes		
– wholly repayable within five years (Note 34)	50,911	51,094
Interest on CB4 – wholly repayable within five years (Note 37)	54,805	71,007
Adjustment to the carrying amount of CB4 due to shortened expected		
– wholly repayable within five years (Note 37)	(1,795)	101,862
	859,989	908,097
Less: Interest capitalised	(561,312)	(434,864)
Finance costs	298,677	473,233

During the year ended 31 December 2012, the weighted average interest capitalisation rate was 8.32% (2011: 7.38%).

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration from the Group (including the CNTD Group) for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

			2012		
Name of director and the chief executive	Salaries	Pension scheme	Fees	CNTD Management Grant*	Total
Executive directors					
– Mr. Shi Jian	2,250	–	–	–	2,250
– Mr. Li Yao Min	2,500	–	–	618	3,118
– Mr. Yu Hai Sheng (Chief executive)	2,000	–	–	–	2,000
– Mr. Jiang Xu Dong	2,200	–	–	–	2,200
– Mr. Shi Pin Ren (resigned in 2012)	1,987	–	–	–	1,987
– Mr. Zhang Hong Fei	1,610	–	–	–	1,610
– Mr. Shi Li Zhou	1,042	15	–	–	1,057
Non-executive directors					
– Mr. Cheung Wing Yui	–	–	360	–	360
– Mr. Jin Bing Rong	–	–	330	–	330
Independent non-executive directors					
– Mr. E Hock Yap (retired in 2012)	–	–	247	–	247
– Mr. Chan, Charles Sheung Wai (appointed in 2012)	–	–	158	–	158
– Mr. Yuan Pu	–	–	330	–	330
– Mr. Jiang Xie Fu	–	–	369	–	369
– Mr. Zhuo Fu Min	–	–	360	–	360
Total	13,589	15	2,154	618	16,376

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10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

	2011				
Name of director and the chief executive	Salaries	Pension scheme	Fees	CNTD Management Grant*	Total
Executive directors					
– Mr. Shi Jian	3,000	–	–	–	3,000
– Mr. Li Yao Min	3,500	–	–	1,532	5,032
– Mr. Yu Hai Sheng (Chief executive)	2,500	–	–	–	2,500
– Mr. Jiang Xu Dong	2,000	–	–	–	2,000
– Mr. Shi Pin Ren	2,517	–	–	–	2,517
– Mr. Yue Wai Leung (resigned in 2011)	2,751	86	–	1,532	4,369
– Mr. Zhang Hong Fei (appointed in 2011)	699	–	–	–	699
– Mr. Shi Li Zhou (appointed in 2011)	100	–	–	–	100
Non-executive directors					
– Mr. Cheung Wing Yui	–	–	360	–	360
– Mr. Jin Bing Rong	–	–	330	–	330
Independent non-executive directors					
– Mr. E Hock Yap	–	–	330	–	330
– Mr. Yuan Pu (appointed in 2011)	–	–	165	–	165
– Mr. Jiang Xie Fu	–	–	362	–	362
– Mr. Zhuo Fu Min	–	–	360	–	360
Total	17,067	86	1,907	3,064	22,124

* On 5 July 2007, the Board of Directors of CNTD passed a resolution to award a total of 380 shares (equivalent to 28,500,000 shares after CNTD's share split in 2007) to certain CNTD's directors and employees ("Entitled Persons") as an incentive for their continued service to CNTD. Mr. Li Yao Min and Mr. Yue Wai Leung, who are also directors of CNTD, were each awarded 79 shares (equivalent to 5,925,000 shares after CNTD's share split), respectively. The terms of CNTD's Management Stock Option Plan (the "Management Grant") are detailed in Note 32.

No discretionary bonuses, inducement fees, employer's contribution to pension schemes or compensation for loss of office as directors were given to any of the directors during the years ended 31 December 2012 and 2011.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the years ended 31 December 2012 and 2011.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included five (2011: five) directors, details of whose remuneration are set out in Note 10 above.

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12. INCOME TAX

An analysis of income tax from the continuing operations is as follows:

	2012	2011
Current taxation		
– Mainland China income tax (a)	**331,840**	447,988
– Mainland China LAT (c)	**(59,433)**	(47,372)
	272,407	400,616
Deferred taxation		
– Mainland China income tax	**(119,477)**	(183,195)
– Mainland China LAT	**59,957**	64,723
– Mainland China withholding tax (d)	**(24,656)**	31,979
	(84,176)	(86,493)
Total tax charge for the year	**188,231**	314,123

(a) Mainland China income tax

The Group conducts a significant portion of its business in Mainland China and the applicable income tax rate of its subsidiaries operating in Mainland China is generally 25%, in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of sale transactions and revenue recognition based on certain estimations. The outstanding balance of prepaid income tax was approximately HK$61 million as at 31 December 2012 (2011: HK$27 million).

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2016. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

(c) Mainland China land appreciation tax ("LAT")

LAT is incurred upon transfer of property and land ownership and is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures.

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12. INCOME TAX (continued)

(c) Mainland China land appreciation tax ("LAT") (continued)

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transactions and revenue recognition, generally based on 1% to 5% (2011: 1.5% to 5%) on proceeds of the sale and pre-sale of properties. Prepaid LAT had been recorded in "prepaid income tax" with an amount of approximately HK$168 million as at 31 December 2012 (2011: approximately HK$155 million).

Upon the completion of final clearance and settlement of LAT of a completed real estate project, LAT of an amount of RMB99 million (approximately HK$121 million) accrued in prior periods was no longer payable and thus credited to the profit during the year ended 31 December 2012 (2011: RMB190 million, (approximately HK$229 million)).

(d) Mainland China withholding tax

Pursuant to the PRC Corporate Income Tax Law which became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from withholding tax.

A reconciliation of the tax expense applicable to profit before tax from continuing operations using the statutory tax rate of 25% for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

	2012	2011
Profit before tax from continuing operations	**600,635**	976,065
Tax at the applicable tax rate of 25%	**150,159**	244,016
Different tax rates for certain subsidiaries	**(45)**	(27)
Tax effect of results attributable to associates	**(1,771)**	(1,711)
Impact of LAT (which is itself classified as part of income tax) as it is deductible for income tax purposes	**(131)**	(4,338)
Income not subject to tax	**(2,023)**	(2,053)
Tax losses not recognised	**118,269**	98,856
Expenses not deductible for tax	**4,992**	21,849
Previous years' tax losses recognised	**(57,087)**	(91,799)
Effect of withholding tax at 10% on the retained profits expected to be distributed of the Group's subsidiaries in Mainland China	**(24,656)**	31,979
Mainland China income tax	**187,707**	296,772
Mainland China LAT (including deferred LAT)	**524**	17,351
Total tax expense for the year at the Group's effective tax rate	**188,231**	314,123

The share of taxes from continuing operations attributable to associates amounting to approximately HK$0.2 million (2011: HK$3.1 million) is included in "share of profits and losses of associates" on the face of the consolidated statement of comprehensive income.

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13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of HK$208,502 thousand (2011: loss of HK$42,494 thousand) which has been dealt with in the financial statements of the Company.

14. DISCONTINUED OPERATION

As mentioned in Note 1, in 2012, the Company disposed of its entire holding of shares in CNTD to the Company's shareholders via the Distribution. Upon completion of the Distribution, on 3 October 2012, the CNTD Group ceased to be subsidiaries of the Company.

Also, since the CNTD Group's operations and cash flows were clearly distinguished from the rest of the Group, the CNTD Group is a discontinued operation.

The results of the discontinued operation (i.e., the CNTD Group) for the period ended 3 October 2012 and the year ended 31 December 2011 are presented below. The results of the discontinued operation as presented below are the results as reported in the Group's consolidated financial statements that are attributable to the CNTD Group, which differed from the results in the CNTD Group's own financial statements because the results of the discontinued operation presented below incorporated such necessary consolidation adjustments as the effects arose from the application of the acquisition method of accounting used in business combination (when CNTD became a subsidiary in 2009), and the effects of inter-company transactions between the CNTD Group and the rest of the Group before 3 October 2012.

	1 January 2012 to 3 October 2012	2011
Revenue	**238,749**	914,600
Cost of sales	**(139,098)**	(455,588)
Gross profit	**99,651**	459,012
Other gains/(losses) – net	**83,055**	(308,512)
Selling and marketing costs	**(113,193)**	(194,915)
Administrative expenses	**(110,366)**	(164,842)
Operating loss of the discontinued operation	**(40,853)**	(209,257)
Finance income	**5,267**	31,232
Finance costs	**(61,889)**	(58,761)
Finance costs – net	**(56,622)**	(27,529)
Share of profits and losses of joint ventures	**293**	(1,076)
Loss before tax from discontinued operation	**(97,182)**	(237,862)
Income tax expense	**(7,452)**	(5,081)
Loss for the period/year from discontinued operation	**(104,634)**	(242,943)

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

14. DISCONTINUED OPERATION (continued)

Since the Distribution is a distribution of non-cash asset ultimately controlled by the same party (i.e., SREI) both before and after the Distribution, the Company measured the net assets disposed of as a result of Distribution at their carrying amounts which resulted in no gain or loss on the Distribution.

	3 October 2012
Carrying amounts of net assets disposed of:	
Property, plant and equipment	1,695,723
Completed investment properties	921,264
Investment properties under construction	122,369
Prepaid land lease payments	1,294,605
Investments in joint ventures	71,958
Investments in associates	245
Deferred tax assets	181,351
Non-current trade receivables	42,849
Other non-current assets	668,037
Properties held or under development for sale	1,992,080
Land development for sale	6,584,501
Inventories	6,449
Prepayments and other current assets	62,907
Other receivables	49,699
Trade receivables	177,381
Restrict cash and bank balances	232,331
Cash and cash equivalents	250,669
Interest-bearing bank and other borrowings	(3,014,008)
Deferred tax liabilities	(82,934)
Deferred income from sale of golf club membership	(623,378)
Interest-bearing bank and other borrowings, current portion	(1,217,967)
Advances received from the pre-sale of properties under development	(351,068)
Trade payables	(2,762,274)
Other payables and accruals	(862,572)
Current income tax liabilities	(634,997)
Amounts due to related companies	(71,505)
Deferred income arising from construction of ancillary public facilities	(723,116)
Non-controlling interests	(2,027,350)
Net assets disposed of	1,983,249

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

14. DISCONTINUED OPERATION (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the CNTD Group is as follows:

	2012
Cash and cash equivalents disposed of	**(250,669)**
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(250,669)**

The net cash flows incurred by the CNTD Group are as follows:

	1 January 2012 to 3 October 2012	2011
Operating activities	**(614,123)**	(1,308,230)
Investing activities	**(146,757)**	(884,855)
Financing activities	**585,889**	1,203,035
Net cash outflow	**(174,991)**	(990,050)
Loss per share:		
– Basic, from the discontinued operation	**HK$(1.22 cents)**	HK$(2.92 cents)
– Diluted, from the discontinued operation	**HK$(1.22 cents)**	HK$(2.92 cents)

The calculations of basic and diluted loss per share amounts from the discontinued operation are based on:

	2012	2011
Loss attributable to ordinary equity holders of the parent from the discontinued operation	**(65,600)**	(127,209)
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculations (Note 16)	**5,364,434**	4,354,048

15. DIVIDENDS PAID AND PROPOSED

No final dividend to the shareholders was proposed by the Company in respect of the year ended 31 December 2012 (2011: No final dividend).

Pursuant to a resolution passed at the special general meeting on 21 September 2012, the Company offered a special dividend in the form of a distribution in specie of all of the 2,658,781,817 shares in CNTD it owned to its shareholders proportional to their respective shareholding in the Company. As a result, shareholders holding a total of 5,664,713,722 shares were entitled to receive the dividend and share registration in relation to the Distribution was completed on 3 October 2012. Details of the distribution are disclosed in Note 14.

16. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 5,364,434 thousand (2011: 4,354,048 thousand) in issue during the year, as adjusted to reflect the rights issue during the year.

For the years ended 31 December 2012 and 2011, the calculation of diluted earnings per share amount did not take into account the convertible bonds (Note 37) of the Company or CNTD's Management Grant (Note 32(a)), because they are anti-dilutive. Hence, the diluted earnings per share are the same as the basic earnings per share for the years ended 31 December 2012 and 2011.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2012	2011
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations		
From continuing operations	**432,907**	623,916
From discontinued operation	**(65,600)**	(127,209)
	367,307	496,707

	Number of shares 2012 (Thousand shares)	2011 (Thousand shares)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**5,364,434**	4,354,048
	5,364,434	4,354,048

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

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17. PROPERTY, PLANT AND EQUIPMENT

GROUP

	2012						
	Buildings	Golf operational assets	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost							
Beginning of year	1,930,822	798,373	2,218	746,427	133,014	520,333	4,131,187
Additions	–	–	–	1,552	2,146	146,272	149,970
Transfer to properties held or under development for sale	(413,901)	–	–	(254,639)	–	–	(668,540)
Disposal of a subsidiary (Note 46 (a))	–	–	–	(59)	–	–	(59)
Disposals	(283)	–	–	(5,830)	(1,996)	–	(8,109)
Disposal of CNTD Group as a result of the Distribution (Note 14)	(988,417)	(791,442)	–	(80,453)	(63,593)	(467,236)	(2,391,141)
Exchange realignment	(10,316)	(6,931)	(1)	(1,763)	(572)	(3,599)	(23,182)
End of year	517,905	–	2,217	405,235	68,999	195,770	1,190,126
Accumulated depreciation and impairment							
Beginning of year	533,231	134,076	499	380,356	82,894	–	1,131,056
Depreciation charge for continuing operations (Note 7)	24,629	–	88	66,875	9,245	–	100,837
Depreciation charge for discontinued operation	17,330	16,145	–	4,395	5,463	–	43,333
Transfer to properties held or under development for sale	(58,737)	–	–	(132,390)	–	–	(191,127)
Disposal of a subsidiary (Note 46 (a))	–	–	–	(19)	–	–	(19)
Disposals	–	–	–	(5,256)	(1,013)	–	(6,269)
Disposal of CNTD Group as a result of the Distribution (Note 14)	(440,855)	(148,976)	–	(61,470)	(44,117)	–	(695,418)
Exchange realignment	(3,941)	(1,245)	(170)	(1,487)	(351)	–	(7,194)
End of year	71,657	–	417	251,004	52,121	–	375,199
Net carrying amount							
Balance, end of year	446,248	–	1,800	154,231	16,878	195,770	814,927
Balance, beginning of year	1,397,591	664,297	1,719	366,071	50,120	520,333	3,000,131

Notes to Financial Statements

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17. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP (continued)

	2011						
	Buildings	Golf operational assets	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost							
Beginning of year	1,817,439	702,762	2,113	704,681	114,390	186,898	3,528,283
Additions	26	1,720	–	13,276	16,431	223,853	255,306
Transfer from construction in progress	2,977	57,781	–	–	–	(60,758)	–
Transfer from properties held for sale or under development	23,531	–	–	–	–	154,338	177,869
Disposals	(3,755)	–	–	(6,607)	(3,757)	–	(14,119)
Exchange realignment	90,604	36,110	105	35,077	5,950	16,002	183,848
End of year	1,930,822	798,373	2,218	746,427	133,014	520,333	4,131,187
Accumulated depreciation and impairment							
Beginning of year	452,641	107,894	336	274,120	65,993	–	900,984
Depreciation charge for continuing operations (Note 7)	22,728	–	151	91,353	10,366	–	124,598
Depreciation charge for discontinued operation	34,409	20,399	–	5,401	5,875	–	66,084
Disposals	(199)	–	–	(6,005)	(2,935)	–	(9,139)
Exchange realignment	23,652	5,783	12	15,487	3,595	–	48,529
End of year	533,231	134,076	499	380,356	82,894	–	1,131,056
Net carrying amount							
Balance, end of year	1,397,591	664,297	1,719	366,071	50,120	520,333	3,000,131
Balance, beginning of year	1,364,798	594,868	1,777	430,561	48,397	186,898	2,627,299

Depreciation expenses of approximately HK$88,340 thousand (2011: approximately HK$118,981 thousand), of approximately HK$224 thousand (2011: approximately HK$308 thousand) and of approximately HK$12,273 thousand (2011: approximately HK$5,309 thousand) had been respectively expensed in the cost of goods sold, selling and marketing costs and administrative expenses from continuing operations.

As at 31 December 2012, the property, plant and equipment with a net carrying amount of HK$766,994 thousand (2011: HK$1,403,972 thousand) were pledged as collateral for the Group's bank loans and facilities (Note 33).

Notes to Financial Statements

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17. PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY

	2012		
	Furniture, fitting, fixtures and office equipment	**Motor vehicles**	**Total**
Cost			
Beginning of year	**529**	**3,567**	**4,096**
Exchange realignment	**(1)**	**(1)**	**(2)**
End of year	**528**	**3,566**	**4,094**
Accumulated depreciation			
Beginning of year	**397**	**1,552**	**1,949**
Depreciation charge	**32**	**640**	**672**
Exchange realignment	**–**	**1**	**1**
End of year	**429**	**2,193**	**2,622**
Net carrying amount			
Balance, end of year	**99**	**1,373**	**1,472**
Balance, beginning of year	**132**	**2,015**	**2,147**

	2011		
	Furniture, fitting, fixtures and office equipment	Motor vehicles	Total
Cost			
Beginning of year	635	3,398	4,033
Disposals	(135)	–	(135)
Exchange realignment	29	169	198
End of year	529	3,567	4,096
Accumulated depreciation			
Beginning of year	454	867	1,321
Depreciation charge	40	629	669
Disposal	(118)	–	(118)
Exchange realignment	21	56	77
End of year	397	1,552	1,949
Net carrying amount			
Balance, end of year	132	2,015	2,147
Balance, beginning of year	181	2,531	2,712

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18. INVESTMENT PROPERTIES

GROUP

Completed investment properties

	2012	2011
At beginning of year	**6,604,711**	6,624,338
Transfer from investment properties under construction	**8,863**	35,158
Transfer from/(to) prepaid land lease payments (Note 19)	**193,013**	(16,809)
Transfer from properties held or under development for sale	**225,417**	136,892
Fair value (loss)/gain from continuing operations (Note 6)	**(40,715)**	169,898
Fair value gain/(loss) from discontinued operation	**76,438**	(29,118)
Addition in cost	**4,776**	16,061
Transfer to properties held or under development for sale	**–**	(652,957)
Disposal of CNTD Group as a result of the Distribution (Note 14)	**(921,264)**	–
Disposal of a subsidiary (Note 46 (a))	**(1,344,759)**	–
Exchange realignment	**(13,822)**	321,248
At end of year	**4,792,658**	6,604,711

Investment properties under construction

	2012	2011
At the beginning of the year	**123,350**	111,646
Additions	**8,953**	52,387
Transfers to completed investment properties	**(8,863)**	(35,158)
Fair value loss from discontinued operation	**–**	(11,190)
Disposal of CNTD Group as a result of the Distribution (Note 14)	**(122,369)**	–
Exchange realignment	**(1,071)**	5,665
At end of year	**–**	123,350

The completed investment properties as at 31 December 2012 mainly represent the properties as follows:

- Portions of 7 multi-storey shopping malls and car-park places at Putuo District, Shanghai, with a total fair value of approximately HK$982 million, for which the operating leases entered into have terms ranging from 2 to 15 years

- A 7-storey shopping mall at Shenhe District, Shenyang, with a total fair value of approximately HK$3,363 million, for which the operating leases entered into have terms ranging from 1 to 15 years

- A supermarket shopping mall at Zhabei District, Shanghai with a fair value of approximately HK$428 million, for which the operating lease has a term of 20 years.

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18. INVESTMENT PROPERTIES (continued)

GROUP (continued)

As at 31 December 2012, the Group's investment properties were valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle"), an independent professionally qualified property valuer and consultant. The valuations were performed based on the income approach (term and reversion method or direct capitalization method) or direct comparison approach for those completed investment properties. The following main inputs have been used.

	2012	2011
Yield		
Shanghai Oasis Central Ring Centre – Office	**4.5%**	4.1%–4.4%
Shanghai Oasis Central Ring Centre – Shopping Mall	**6%–6.5%**	6%–6.5%
Shanghai Richgate Shopping Mall	*	6%–6.5%
Shenyang Richgate Shopping Mall	**5%–6%**	5%–6%
Shanghai Shuocheng Supermarket	**5%–5.5%**	N/A
Scandinavia Street, Shanghai	**	6.5%–7%
Retail Street in Wuxi Project	**	4%–5%
Baoshan Shopping mall, Shanghai	**	4%–5%

* Shanghai Richgate Shopping Mall was disposed of as a result of the disposal of a subsidiary in 2012. Details are disclosed in Note 46(a).

** Those investment properties were disposed of as a result of the Distribution in 2012. Details are disclosed in Note 14.

In arriving at the fair value of the investment properties under construction, reference is made to the comparable sales evidence available in a relevant market, after taking into account the expended construction costs and the costs that will be expended to complete the development.

The Group's interests in completed investment properties and investment properties under construction at their net book values are analysed as follows:

	2012	2011
In Mainland China, held on:		
Leases of over 50 years	–	1,351,906
Leases of between 10 and 50 years	**4,792,658**	5,376,155
	4,792,658	6,728,061

The investment properties pledged for bank borrowings are disclosed in Note 33.

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18. INVESTMENT PROPERTIES (continued)

GROUP (continued)

The following amounts relating to the investment properties have been recognised in profit or loss from the continuing operations:

	2012	2011
Rental income (Note 5)	143,221	150,867
Direct operating expenses arising from investment properties that generate rental income	(34,669)	(34,154)
Rental income on investment properties less direct operating expenses	108,552	116,713

19. PREPAID LAND LEASE PAYMENTS

GROUP

	2012	2011
In Mainland China, held on:		
– Leases of over 50 years	8,297,379	9,215,580
– Leases of between 10 and 50 years	3,058,935	3,666,078
In other country, free held	45,636	45,229
	11,401,950	12,926,887

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2012	2011
At beginning of year	12,926,887	11,417,242
Additions	718,195	2,494,873
Acquisition of a subsidiary (Note 45)	483,699	–
Transfer (to)/from investment properties (Note 18)	(193,013)	16,809
Amortisation capitalised as properties under development for sale	(224,431)	(255,058)
Disposals with the sale of completed properties	(284,991)	(831,275)
Disposal of a subsidiary (Note 46 (b))	(709,623)	(488,261)
Disposal of CNTD Group as a result of the Distribution (Note 14)	(1,294,605)	–
Amortisation for continuing operations	(5,793)	(7,684)
Amortisation for discontinued operation	(4,200)	(5,503)
Exchange realignment	(10,175)	585,744
At end of year	11,401,950	12,926,887
Analysed as:		
Non-current: In relation to properties classified under property, plant and equipment	141,391	507,906
Current: In relation to properties held or under development for sale	11,260,559	12,418,981
	11,401,950	12,926,887

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19. PREPAID LAND LEASE PAYMENTS

As at 31 December 2012, the Group's leasehold land of approximately HK$9,642 million (2011: HK$6,638 million) was pledged as collateral for the Group's bank loans and facilities (Note 33).

20. GOODWILL

GROUP

	2012	2011
Cost		
At beginning of year	**704,120**	671,979
Exchange realignment	**(173)**	32,141
At end of year	**703,947**	704,120
Accumulated impairment		
At beginning of year	**55,562**	–
Impairment losses recognised (Note 6)	**–**	55,562
Exchange realignment	**(14)**	–
At end of year	**55,548**	55,562
Net carrying amount		
Balance, end of year	**648,399**	648,558
Balance, beginning of year	**648,558**	671,979

Impairment testing of goodwill

Goodwill acquired through certain business combinations has been mainly allocated to the following cash-generating units for impairment testing:

- Shenyang Albany Oasis Garden
- Richgate II
- Bairun

These cash-generating units are parcels of land in the cities of Shenyang and Shanghai and properties currently under development on such parcels will be available for sale in the forthcoming one to six years.

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20. GOODWILL (continued)

Impairment testing of goodwill (continued)

The recoverable amounts of Shenyang Albany Oasis Garden, Richgate II and Bairun property development project of cash-generating units have been determined based on a value-in-use calculation using cash flow projections based on forecasts covering six-year, six-year and three-year periods respectively, approved by management. The pre-tax discount rates applied to the cash flow projections are 17.2% (2011: 15.5%), 14.4% (2011: 14.7%) and 17.6% (2011: 16.2%), respectively, and the cash flows for periods beyond the five-year period are consistent with the real estate industry market indices. Professional valuer, Jones Lang LaSalle, was engaged to assist the Group in determining the estimated values in use.

The cost of goodwill allocated to each of the major cash-generating units before impairment is as follows:

	2012	2011
Albany Oasis Garden	**390,495**	390,592
Richgate II	**93,558**	93,581
Bairun	**178,017**	178,061
Others	**41,877**	41,886
	703,947	704,120

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill with the assistance from Jones Lang LaSalle:

– Selling prices – The market prices of comparable properties nearby

– Construction costs – The estimated costs including infrastructure costs to complete the property development projects

– Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant cash-generating units

The values assigned to key assumptions are based on historical experiences, current market condition, approved budgets and forecasts, and are consistent with external information sources.

As at 31 December 2012, the Group determined that the recoverable amounts of goodwill were higher than their carrying amounts, so no impairment loss was provided for the year ended 31 December 2012 (2011: impairment loss of RMB46 million (approximately HK$56 million) was provided against goodwill arising from the acquisition of Bairun).

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21. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES

(a) Investments in subsidiaries

COMPANY

	2012	2011
Unlisted equity interests, at cost	**4,971,393**	5,403,327

As at the 31 December 2012, the Company had direct or indirect interests in the following principal subsidiaries:

Name	Place and date of incorporation or establishment	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Held by subsidiaries			
Sinopower Investment Limited	British Virgin Islands ("BVI") 1 October 1998	100%	–	US$1	US$1	Investment holding
Shanghai Xin Dong Industry Co., Ltd.	PRC 28 May 1993	–	98%	US$3,457,729	US$3,457,729	Property leasing and real estate agency
Shanghai Real Estate Property Management Co., Ltd.	PRC 1 September 1995	–	98.57%	RMB42,200,000	RMB42,200,000	Property management
Shanghai Oasis Garden Real Estate Co., Ltd. ("Oasis Garden") (iv)	PRC 29 September 1998	–	98.75%	US$19,600,000	US$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd.	PRC 4 August 1999	–	98.96%	US$20,000,000	US$20,000,000	Development of technology housing and provision of construction services
Shanghai Zhufu Property Development Co., Ltd.	PRC 11 August 2000	–	50.36%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd.	BVI 29 September 2001	–	52%	US$100	US$100	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd.	PRC 16 April 2002	–	51.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd.	PRC 14 June 2002	–	98%	US$10,000,000	US$10,000,000	Property development
Shanghai Andong Real Estate Development Ltd.	PRC 18 October 2007	–	99%	RMB370,000,000	RMB370,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd.	PRC 12 August 2002	–	95.79%	US$54,962,000	US$54,962,000	Property development and property leasing
Shanghai Jinxin Real Estate Co., Ltd.	PRC 28 October 2002	–	100%	RMB700,000,000	RMB700,000,000	Property development

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21. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Held by subsidiaries			
Shanghai Skyway Hotel Co., Ltd.	PRC 9 December 2002	–	56%	RMB200,000,000	RMB200,000,000	Hotel operations
Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management")	PRC 30 October 2007	–	60%	US$31,936,200	US$31,936,200	Property leasing
Shanghai Shuo Cheng Real Estate Co., Ltd.	PRC 29 January 2003	–	100%	RMB450,000,000	RMB450,000,000	Property development
Shanghai Liangshi Enterprises Ltd.	PRC 24 May 2006	–	98.75%	RMB1,000,000	RMB1,000,000	Property development
Shanghai Shangzhi Real Estate Development Co., Ltd.	PRC 16 October 2008	–	98.75%	RMB10,000,000	RMB10,000,000	Property development
Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao")	PRC 4 December 2000	–	97.5%	RMB750,000,000	RMB750,000,000	Property development
Haikou Century Harbour City Co., Ltd. ("Haikou Century") (iv)	PRC 25 June 2008	–	79%	RMB220,000,000	RMB220,000,000	Property development
Shenyang Lukang Real Estate Ltd.	PRC 13 July 2007	–	98.95%	US$31,250,000	US$31,250,000	Property development
Haikou Century Richgate Business Administration Co., Ltd.	PRC 20 October 2008	–	100%	US$300,000	US$300,000	Hotel administration
Shanghai Lushan Real Estate Ltd.	PRC 4 August 2004	–	27.70%	RMB11,110,000	RMB11,110,000	Property development
Shanghai Xiangdao Real Estate Ltd.	PRC 21 July 2009	–	98.75%	RMB330,000,000	RMB330,000,000	Property development
Shanghai Xiabo Industry Ltd.	PRC 14 September 1995	–	98.75%	RMB3,000,000	RMB3,000,000	Property development
Shanghai Haibo Property development Co., Ltd.	PRC 27 December 1996	–	98.75%	RMB15,000,000	RMB15,000,000	Property development

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21. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Held by subsidiaries			
Shanghai Bairun Real Estate Co., Ltd. ("Bairun")	PRC 16 May 2002	–	50.36%	RMB112,000,000	RMB112,000,000	Property development
Wuxi Zhongqing Real Estate Co., Ltd.	PRC 11 July 2008	–	98.75%	RMB85,000,000	RMB85,000,000	Property development
Wuxi Yongqing Real Estate Co., Ltd. ("Wuxi Yongqing") (v)	PRC 27 January 2007	–	98.75%	RMB20,000,000	RMB20,000,000	Property development
Jiaxing Lake Richgate Real Estate Co., Ltd.	PRC 26 September 2007	–	98.96%	US$49,900,000	US$49,900,000	Property development
Shanghai Zhiyi Enterprise Ltd.	PRC 14 March 2011	–	98.96%	RMB30,000,000	RMB30,000,000	Procurement management
Meredith Land Pty. Ltd.	AUS 19 November 2010	–	76%	AUD1,000	AUD1,000	Property development
Shanghai Huajian Real Estate Property Management Co., Ltd.	PRC 24 June 2011	–	100%	RMB3,237,100	RMB3,237,100	Property management
Shanghai SRE Internet of things (IOT) Co., Ltd.	PRC 24 June 2011	–	83.78%	RMB20,000,000	RMB20,000,000	Internet of things
Shanghai Lake Malaren Property Management Co., Ltd.	PRC 23 June 2005	–	98.57%	RMB5,000,000	RMB5,000,000	Property management
Shanghai Shangzhi Family Service Co., Ltd.	PRC 23 February 2012	–	98.57%	RMB2,000,000	RMB2,000,000	Property management

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Other than disclosed above, the Company has several investment holding subsidiaries incorporated in the BVI or Hong Kong with nominal issued shares. All subsidiaries located in Mainland China are limited liability entities.

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

21. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

The major transactions relating to the investments in subsidiaries are as follows:

(i) On 18 May 2012, Golden Bright Resource Limited ("Golden Bright"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with a third party for the disposal of its entire interest in Shanghai Richgate Shopping Mall through the disposal of its wholly-owned subsidiary, Go High Investment Limited ("Go High") for a consideration of RMB380,596 thousand (equivalent to HK$467,276 thousand) for the acquisition of equity interest in Go High and a HK$184,500 thousand for shareholder loan to Go High. The transaction was completed on 28 June 2012. Total consideration has been received in cash during 2012. As a result of the disposal, the Group recorded a gain of approximately HK$273,428 thousand (Note 6).

(ii) On 13 July 2012, CNTD issued 585,000,000 new shares at a price of HK$0.35 per share. The Group did not acquire any share in this new placement. As a result, the Group's equity interest in CNTD diluted from 68.07% to 59.2%.

This resulted in a decrease in the Group's percentage of shareholding in CNTD without a loss of control, hence, the decrease in the Group's share of net assets, amounting to approximately HK$169 million, was debited to other reserves.

(iii) As mentioned in Note 1 and Note 14, on 3 October 2012, the Group's entire holding of CNTD's shares, being approximately 59.2% of the total number of issued CNTD shares, was distributed as a special dividend to its shareholders by way of distribution in specie. As a result, CNTD and its subsidiaries ceased to be subsidiaries of the Group.

(iv) On 22 June 2012, the board of directors of Haikou Century passed a resolution to split Haikou Century into two companies (the "De-merger") whereby certain portions of the assets (mainly comprising 2 parcels of land located in Haikou), liabilities (mainly comprising payables) and paid-up capital were to be injected into a newly set up company, i.e., Haikou New Bund Development Co., Ltd. ("New Bund"), whose equity interests are to be owned by the existing shareholders of Haikou Century, based on their existing proportion of equity interests in Haikou Century. The combined assets, liabilities, paid-up capital and equity of Haikou Century and New Bund remained unchanged before and after the De-merger. The De-merger was completed in September 2012.

On 12 September 2012, Oasis Garden, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement and a related supplemental agreement with a third party, pursuant to which Oasis Garden agreed to sell all of its 80% equity interest in New Bund for a total consideration of RMB80 million which had been received in 2012. The disposal was completed in November 2012.

(v) On 18 October 2012, the Group acquired a 100% interest in Wuxi Yongqing from a third party. The consideration was RMB20 million (see Note 45).

(b) Advances to subsidiaries

COMPANY

All the advances to subsidiaries as at 31 December 2012 and 2011 were unsecured, interest-free and had no fixed repayment terms.

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22. INVESTMENTS IN JOINT VENTURES

GROUP

	2012	2011
Unlisted investments		
Share of net assets	–	48,241
	–	48,241

(i) Shanghai Golden Luodian Development Co., Ltd., a subsidiary of CNTD, established Shanghai Lake Malaren International Culture Art Co., Ltd. in 2011, a 50% - owned joint venture engaged in artwork business.

The Group's share of the assets and liabilities as at 31 December 2011 and income and expenses of the joint venture for the year ended 31 December 2011 were as follows:

	2011
Share of the joint venture's statement of financial position:	
Current assets	10,154
Non-current assets	1,182
Current liabilities	(4)
Net assets	11,332
Share of the joint venture's revenue and loss:	
Revenue	202
Selling expenses	(422)
Administrative expenses	(779)
Other income	16
Loss before tax	(983)
Loss after tax	(983)

The interest in the joint venture was disposed of in 2012 as a result of disposal of shares in CNTD in the Distribution (see Note 1 and Note 14).

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

22. INVESTMENTS IN JOINT VENTURES (continued)

GROUP (continued)

(ii) Wuxi Hongshan New Town Development Co., Ltd. ("Wuxi Hongshan"), a subsidiary of CNTD, formed a joint venture namely Wuxi New District Xinrui Hospital Management Co., Ltd. which is engaged in medical operation and is 60% owned by Wuxi Hongshan.

The Group's share of the assets and liabilities as at 31 December 2011 and income and expenses of the joint venture for the year ended 31 December 2011 were as follows:

	2011
Share of the joint venture's statement of financial position:	
Current assets	36,909
Net assets	36,909
Share of the joint venture's revenue and loss:	
Administrative expenses	(110)
Other income	17
Loss before tax	(93)
Loss after tax	(93)

The interest in the joint venture was disposed of in 2012 as a result of disposal of shares in CNTD in the Distribution (see Note 1 and Note 14).

23. INVESTMENTS IN ASSOCIATES

GROUP

	2012	2011
Unlisted equity interests		
Share of net assets	**76,533**	77,372
Less: Provision for impairment	–	–
	76,533	77,372

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

23. INVESTMENTS IN ASSOCIATES (continued)

GROUP (continued)

As at the 31 December 2012, the Company had indirect interests in the following principal associates:

Name	Place and date of incorporation or establishment	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Held by subsidiaries			
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC 6 May 1997	–	26%	RMB100,000,000	RMB100,000,000	Research and development of housing technology
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC 24 October 2000	–	19.80%*	RMB100,000,000	RMB100,000,000	Development and sale of netware and construction of broadband fibre projects

* The Group considered that it is able to exercise significant influence over Broadband through its non-wholly subsidiary which holds more than 20% equity interests of Broadband.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

The financial year end dates of the above associates are coterminous with that of the Group.

The Group's shareholdings in the associates comprise equity shares held through certain wholly-owned subsidiaries and non-wholly-owned subsidiaries of the Company. All the above associates have been accounted for using the equity method in the consolidated financial statements.

Extracts of financial information of principal associates

The following tables illustrate the financial information of the Group's principal associates as extracted from their financial statements:

(1) **Broadband**

	2012	2011
Assets	254,700	312,452
Liabilities	(45,006)	(107,023)
Revenue	181,464	206,024
Profit after tax	42,497	41,724

(2) **New Technology**

	2012	2011
Assets	123,931	131,268
Liabilities	(1,649)	(3,447)
Revenue	3,818	13,357
Profit after tax	(5,440)	(5,763)

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24. OTHER NON-CURRENT ASSETS

GROUP

	2012	2011
Deferred commission from sale of golf membership	–	57,606
Others	–	955
	–	58,561

As a result of the disposal of shares in CNTD in the Distribution (see Note 1 and Note 14), there were no deferred commission from sale of golf membership as at 31 December 2012.

25. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	2012	2011
At cost		
– In Shanghai City, PRC	**4,532,663**	5,519,288
– In Shenyang City, PRC	**897,075**	1,110,785
– In Wuxi City, PRC	**536,829**	527,189
– In Jiaxing City, PRC	**594,258**	421,444
– In Haikou City, PRC	**311,043**	280,637
– In Chengdu City, PRC	–	228,242
– In Sydney City, Australia	**60,299**	7,674
	6,932,167	8,095,259

GROUP

	2012	2011
Properties held or under development expected to be completed		
– Within one year	**4,676,816**	5,638,616
– After one year	**2,255,351**	2,456,643
	6,932,167	8,095,259

As at 31 December 2012 and 2011, certain of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank loans and facilities (see Note 33).

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26. LAND DEVELOPMENT FOR SALE

GROUP

	2012	2011
At cost:		
Mainland China	–	6,366,044

Land development for sale represents the cost of land development within the districts of the new town development projects in CNTD Group. Though the Group does not have ownership title or land use rights to such land, the Group is given the right to carry out construction and preparation works in respect of land infrastructure and ancillary public facilities in those new town development projects. When the land plots are sold by the local governments, the Group is entitled to receive from the local authorities a proportion of the proceeds from land sales (including related public utilities fees, if any).

As a result of the disposal of shares in CNTD in the Distribution (see Note 1 and Note 14), there was no land development for sale as at 31 December 2012.

27. PREPAYMENTS AND OTHER CURRENT ASSETS

	Group		Company	
	2012	2011	2012	2011
Non-current				
Prepayments (a)	192,000	821,086	–	–
	192,000	821,086	–	–
Current				
Prepaid business tax	61,894	105,887	–	–
Prepayments (b)	105,029	258,070	–	–
Others	8,539	8,256	4,355	3,293
	175,462	372,213	4,355	3,293

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27. PREPAYMENTS AND OTHER CURRENT ASSETS (continued)

(a) The non-current prepayments as of 31 December 2012 were a non-interest-bearing earnest money of HK$192 million (2011: HK$192 million) paid to a non-controlling shareholder. As mentioned in Note 38, the Group can exercise a call option to purchase up to a 40% equity interest (the "Interest") of Huarui Asset Management. The payment of the earnest money did not constitute an exercise of the call option, and the earnest money is refundable any time without any penalty. On 28 December 2012, the Group exercised the call option.

The non-current prepayments as at 31 December 2011 also included RMB510 million (approximately HK$629 million) of prepayments made by the CNTD Group for construction of certain projects in Wuxi.

(b) The above current prepayments as at 31 December 2011 mainly included RMB137 million (approximately HK$169 million) of prepayments for land use rights located in Shenyang. During the year ended 31 December 2012, the amount has been transferred to prepaid land lease payment. The current prepayments of 2012 mainly included HK$95 million of prepayments for properties under development.

28. OTHER RECEIVABLES

GROUP

	2012	2011
Receivables in connection with acquisition of Konmen Investment Limited (a)	711,607	580,586
Receivables due from a former subsidiary (b)	499,016	94,153
Receivables in respect of CNTD's Changchun Project (c)	–	246,193
Deposit for a real estate project	12,332	37,005
Interest subsidy receivable	–	22,832
Compensation receivable due from two third-party constructors (c)	–	43,173
Relocation compensation receivable from government	96,235	51,881
Receivable from over-paid deemed tax	–	27,112
Others	92,549	139,001
	1,411,739	1,241,936
Less: Provision for impairment (c)	(2,655)	(296,670)
Other receivables, net	1,409,084	945,266

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28. OTHER RECEIVABLES (continued)

(a) On 17 August 2007, SRE Investment Holding Limited (a substantial shareholder of the Company, or the "Vendor") and an independent third party (the "Original Shareholder") entered into an acquisition agreement (the "Vendor Acquisition Agreement"), pursuant to which the Vendor agreed to purchase, from the Original Shareholder, the entire issued share capital (the "Sale Share") of Konmen Investment Limited ("Konmen"), which in turn holds a 70% interest in Liaoning Gao Xiao, at a consideration of HK$1,600 million.

On the same date, the Vendor and a subsidiary of the Company (the "Purchaser") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Purchaser agreed to purchase the Sale Share from the Vendor for a consideration of HK$1,600 million. Pursuant to the Acquisition Agreement, the consideration was satisfied by the Company issuing 526,315,789 shares at a price of HK$3.04 per share, representing approximately 23.80% of the then existing issued share capital of the Company and approximately 19.22% of the issued share capital of the Company as enlarged by the newly issued shares. The market share price on the acquisition date was HK$3.36 per share.

On 15 November 2007, a supplemental agreement was entered into between the Vendor, the Company, the Purchaser, the Original Shareholder and Konmen (the "Supplemental Agreement").

Liaoning Gao Xiao is the developer of two properties (the "Properties") who successfully won the bid in August 2007 for the acquisition of a parcel of land (the "Land") with a site area of approximately 153,696 square metres. Both the Properties and the Land are located at Shenyang City, the PRC. The total purchase cost of the Land including demolition and relocation costs that would be incurred is estimated at RMB1,192,680,960 (the "Land Purchase Cost"). Liaoning Gao Xiao had assets (the "Assets") other than the Land and the unsold part of the Properties, and other liabilities (the "Liabilities"), upon completion of the acquisition.

According to the above agreements, the Original Shareholder agreed to pay Liaoning Gao Xiao the Land Purchase Cost, to bear the Liabilities and to reimburse Liaoning Gao Xiao the relevant amounts payable in respect of the Liabilities, to the extent that they have not been paid for by the Original Shareholder and/or the other shareholder (the "Original Minority Shareholder") who holds the remaining 30% equity interest in Liaoning Gao Xiao. If the amounts paid by the Original Shareholder are made to the Vendor, the Vendor agreed to transfer such amounts to the Group. The Original Shareholder is also entitled to receive the Assets from the Group through the Vendor, to the extent that such assets have not been paid to the Original Shareholder and/or the Original Minority Shareholder.

Pursuant to the above agreements, the Vendor has also undertaken to pay Liaoning Gao Xiao the Land Purchase Cost, and to bear the Liabilities and to reimburse Liaoning Gao Xiao the relevant amounts payable in respect of the Liabilities, to the extent they have not been paid for by the Original Shareholder and/or the Original Minority Shareholder. In addition, in the event that Liaoning Gao Xiao fails to obtain the relevant land use right to the Land by 30 June 2009, the Vendor undertakes to pay the Company HK$1,600 million in cash on or before 30 December 2009 (the "Undertaking").

It was subsequently announced by the Company on 26 June 2009 that as at 30 April 2009, Liaoning Gao Xiao has only obtained land use rights for approximately 28% of the site area of the Land. On 4 December 2009, the Special General Meeting of the Company passed a resolution that the Company shall not exercise its rights under the Undertaking for the time being and shall delay enforcement of the Undertaking against the Vendor to 31 December 2012 if Liaoning Gao Xiao still fails to obtain the land use rights certificates in respect of the remaining portion of the Land by then.

28. OTHER RECEIVABLES (continued)

(a) (continued)

During 2012, pursuant to the above agreements, the Vendor undertook to pay the unpaid portion of the Original Minority Shareholder's share of Land Purchase Cost of RMB137 million and it was recorded as capital contribution by the shareholder in the consolidated financial statements.

Up to 31 December 2012, RMB765 million was received by the Group in respect of the Land Purchase Cost (among which RMB545 million was received from the Vendor and RMB220 million was received from the Original Minority Shareholder). As at 31 December 2012, since the Vendor has undertaken, pursuant to the above agreements, to pay the Land Purchase Cost to the extent they have not been paid for by the Original Shareholder and/or the Original Minority Shareholder, the total remaining Land Purchase Cost of approximately RMB427 million (approximately HK$528 million) became a receivable from the Vendor.

As of the date when the financial statements were approved for issue, the Group has already received from the Vendor the full settlement of the remaining Land Purchase Cost and Liaoning Gao Xiao has obtained the land use rights certificates for the entire site area of the Land.

As of 31 December 2012, the amount of approximately RMB149 million (approximately HK$184 million) (2011: RMB151 million (approximately HK$186 million)) (i.e., the balance of Liabilities net of the balance of the Assets), would be reimbursed from the Vendor according to the agreements above and became a receivable from the Vendor, as such amount has not been paid for by the Original Shareholder or the Original Minority Shareholder. The amount decreased as a result of change in estimated amount of Liabilities net of the Assets in relation to the Properties.

(b) As at 31 December 2012, there was a receivable of RMB405 million (approximately HK$499 million) due from a former subsidiary, arising from intra-group transactions between the former subsidiary and other subsidiaries of the Group before the Group disposed of the former subsidiary (2011: approximately RMB76 million, equivalent to approximately HK$94 million, receivable from another disposed subsidiary).

(c) The other receivable balance as at 31 December 2011 included a CNTD Group's receivable of about RMB199 million (approximately HK$246 million) from a local authority and a RMB35 million (approximately HK$43 million) due from two third-party constructors. A provision for impairment of RMB220 million (approximately HK$267 million) in total was made by the CNTD Group. As at 31 December 2012, such balances did not exist as a result of the disposal of CNTD in the Distribution (see Note 1 and Note 14).

As at 31 December 2012, other than past due and impaired receivables of HK$2,655 thousand (2011: HK$296,670 thousand), other receivables are neither past due nor impaired, and the financial assets include in the other receivable balances related to receivables for which there was no recent history of default.

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29. TRADE RECEIVABLES

GROUP

	2012	2011
Trade receivables	**41,738**	112,872
Less: Provision for impairment	**(10,617)**	(10,620)
	31,121	102,252
Non-current trade receivables	**–**	86,225
	31,121	188,477

	2012	2011
Trade receivables:		
Receivables from land development for sale	**–**	72,390
Receivables from the sale of golf club membership	**–**	4,461
Receivables from hotel operations	**6,752**	3,244
Receivables from property leasing	**558**	152
Receivables from the sale of residential and commercial properties	**23,695**	20,150
Others	**10,733**	12,475
Less: Provision for impairment	**(10,617)**	(10,620)
	31,121	102,252
Non-current trade receivables:		
Receivables from land development for sale	**–**	86,119
Receivables from the sale of golf club membership	**–**	106
	–	86,225
	31,121	188,477

An aged analysis of trade receivables as at the end of the reporting period, from the date when they were recognised, is as follows:

	2012	2011
Within 6 months	**23,061**	22,814
6 months to 1 year	**1,621**	9,236
1 to 2 years	**7,510**	54,096
Over 2 years	**9,546**	112,951
	41,738	199,097

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29. TRADE RECEIVABLES (continued)

The Group's sales of development properties, hotel and CNTD Group's golf operations (other than golf membership) are generally on a cash basis while the Group's trading terms with its customers for other operations are mainly on credit. The credit terms of the Group are as follows:

– CNTD Group's golf club membership: receivable in instalments, the credit terms range from 2 to 3 years

– CNTD Group's land development: represents the CNTD Group's share of the proceeds from land sold by local governments through public auction, receivable from the local governments and generally collectible within 6 months after the land sale without clearly specified credit term, it may take CNTD Group longer to receive certain portion (e.g., the amount attributable to public utility fee) of the receivables which is more than one year

– Others: generally within 6 months

As a result of the disposal of shares in CNTD in the Distribution (see Note 1 and Note 14), there were no trade receivables of the CNTD Group as at 31 December 2012.

Except for the CNTD Group's amounts receivable in respect of the sale of land from the local governments, the Group's other trade receivables relate to a large number of diversified customers. There is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of trade receivables neither past due nor impaired and those past due but not impaired is as follows:

	2012	2011
Neither past due nor impaired	**28,037**	177,214
Past due but not impaired:		
Within 30 days	**159**	4,652
30 to 60 days	**1,057**	1,115
Over 120 days	**1,868**	5,496
	31,121	188,477

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

29. TRADE RECEIVABLES (continued)

The movements in the provision for impairment of trade receivables are as follows:

	2012	2011
At beginning of year	10,620	10,118
Exchange realignment	(3)	502
At end of year	10,617	10,620

No trade receivable was written off during the years ended 31 December 2012 and 2011.

30. CASH AND BANK BALANCES

	Group		Company	
	2012	2011	2012	2011
Cash on hand	4,691	2,019	14	27
Demand and notice deposits	1,248,313	1,302,474	20,710	69,293
Time deposits with original maturity of no more than 3 months	–	51,502	–	–
Cash and cash equivalents	1,253,004	1,355,995	20,724	69,320
Time deposits with original maturity of more than 3 months	2,466	4,934	–	–
Pledged bank deposits (a)	762,007	1,113,063	–	–
Restricted bank deposits under a development project (b)	9,428	3,654	–	–
Restricted bank deposits under government supervision (c)	750	5,495	–	–
Restricted bank deposits relating to bank borrowings (d)	4,352	38,346	–	–
Cash and bank balances	2,032,007	2,521,487	20,724	69,320

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

30. CASH AND BANK BALANCES (continued)

(a) As at 31 December 2012, bank deposits of approximately HK$762 million (2011: HK$1,113 million) were pledged as securities for bank borrowings (Note 33).

(b) These restricted bank deposits are mainly funds designated for relocating existing residents under a development project. As at 31 December 2012, such funds amounted to approximately HK$9 million (2011: approximately HK$4 million).

(c) Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sale proceeds received at designated bank accounts as guarantee deposits for the construction of the relevant properties. As at 31 December 2012, such guarantee deposits amounted to approximately HK$0.8 million (2011: approximately HK$5 million).

(d) An amount of RMB4 million (equivalent to HK$4 million) (2011: RMB31 million, equivalent to HK$38 million) is restricted in connection with bank borrowings.

The carrying amounts of the cash and bank balances which are denominated in the following currencies are:

	Group		Company	
	2012	2011	**2012**	2011
Hong Kong dollars	**9,598**	74,435	**9,503**	62,990
United States dollars	**14,729**	59,388	**11,220**	6,329
Singapore dollars	**1**	167	**1**	1
Australia dollars	**1,409**	2,201	**–**	–
RMB	**2,006,270**	2,385,296	**–**	–
	2,032,007	2,521,487	**20,724**	69,320

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Demand deposits earn interest at floating rates based on daily bank deposit rates. Notice deposits are made for varying periods of between one day and seven days depending on the immediate cash requirements of the Group, and earn interest at the respective notice deposit rates. Time deposits earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents pledged and restricted deposits approximate to their fair values.

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31. ISSUED SHARE CAPITAL AND PREMIUM

GROUP AND COMPANY

		Amount		
	Number of shares (thousands)	Issued capital	Share premium	Total
At 1 January 2012	4,956,624	495,662	5,296,052	5,791,714
Issuance of rights shares	708,089	70,809	138,215	209,024
31 December 2012	5,664,713	566,471	5,434,267	6,000,738

		Amount		
	Number of shares (thousands)	Issued capital	Share premium	Total
At 1 January 2011	3,603,881	360,388	4,376,101	4,736,489
Issue of scrip dividends	102,743	10,274	53,016	63,290
Issue of shares upon conversion of convertible bonds	550,000	55,000	374,448	429,448
Issue of new shares	700,000	70,000	492,487	562,487
31 December 2011	4,956,624	495,662	5,296,052	5,791,714

The total authorised number of ordinary shares is 8,000 million (2011: 8,000 million), each share with a par value of HK$0.10 (2011: HK$0.10). All issued shares are fully paid up.

The Company's share option scheme was approved at a special general meeting held on 23 May 2002. According to this share option scheme, the directors may, at their discretion, at any time during the 10 years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and may not be less than the higher of (i) the average official closing price of the shares on the HKEx for the five trading days immediately preceding the relevant offer date and (ii) the official closing price of the shares on the HKEx on the relevant offer date. The share option scheme expired during the year ended 31 December 2012.

No share options of the Company were outstanding as at 31 December 2012 and 2011.

32. RESERVES

(a) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's entities which are established in Mainland China has been transferred to reserve funds which are restricted as to use.

Companies within the Group, most of which are registered in the PRC as foreign invested entities, are required to make appropriations from statutory net profits to the reserve fund and the enterprise expansion fund, upon distribution of their post-tax profits of the current year. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the boards of directors of these companies.

Companies within the Group, which are registered in the PRC as domestic invested entities, are required to appropriate 10% of statutory net profits to the statutory surplus reserve, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profit, a company may make further contribution to the surplus reserve using its post-tax profit in accordance with a resolution of the board of directors.

CNTD's Management Stock Option Plan ("Management Grant")

Since CNTD was deemed as a subsidiary of the Company since 9 September 2009, CNTD's Management Grant was included in the consolidated financial statements of the Group until CNTD was disposed of in October 2012 as a result of the Distribution (see Note 1 and Note 14). The detailed information of the Management Grant since it was launched is as follows:

On 5 July 2007, the Board of Directors of the CNTD passed a resolution to award a total of 380 CNTD shares (equivalent to 28,500 thousand of CNTD shares after the CNTD's share split in 2007) to certain of the CNTD's directors and employees ("Entitled Persons") as an incentive for their continued service to CNTD in the following proportions.

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

32. RESERVES (continued)

(a) GROUP (continued)

CNTD's Management Stock Option Plan ("Management Grant") (continued)

Entitled Person	Number of CNTD shares allotted before the CNTD share split	Equivalent to the number of shares after the CNTD share split split
Li Yao Min	79	5,925,000
Yue Wai Leung, Stan	79	5,925,000
Yang Yong Gang	68	5,100,000
Gu Bi Ya	40	3,000,000
Cheng Wai Ho	40	3,000,000
Mao Yi Ping	33	2,475,000
Tai Kuo Lin	25	1,875,000
Ma Da Yu	10	750,000
Sun Xiao Meng	3	225,000
Zhang Qiong	3	225,000
Total	380	28,500,000

In accordance with the terms of the Management Grant, the shares are allotted and will vest as follows: (a) 10% at the end of the 12th month after the date of listing of CNTD on the Main Board of the SGX-ST; (b) 15% at the end of the 24th month after the date of listing of CNTD on the Main Board of the SGX-ST; (c) 20% at the end of the 36th month after the date of listing of CNTD on the Main Board of the SGX-ST; (d) 25% at the end of 48th month after the date of listing of CNTD on the Main Board of the SGX-ST; and (e) the remaining 30% at the end of the 60th month after the date of listing of CNTD on the Main Board of the SGX-ST.

The Management Grant is provided on the basis that the Entitled Person remains in service within CNTD on the vesting days and he/she has not submitted a notice of resignation at those dates. The exercise price is RMB8 per CNTD share (before the CNTD share split in 2007, after the CNTD share split, the exercise price was RMB8 per 75,000 CNTD shares). The Management Grant is accounted for as a compensation for services to be provided by the Entitled Persons in the periods of service (the "vesting periods") as specified above. Since the CNTD shares granted do not vest until the Entitled Persons complete their services in the vesting periods, CNTD recognises the expenses over the vesting periods.

CNTD's Management Grant-Fair value of stock options granted

The fair value of the equity-settled stock options was approximately RMB2.023 per CNTD share (after CNTD's share split in 2007) at the date of grant. There has been no cancellation or modification to the Management Grant, and the Management Grant was not replaced as a result of the acquisition of CNTD on 9 September 2009. The fair value on 9 September 2009 was approximately RMB0.576 per share.

Some of the Entitled Persons who have an aggregate of 43 CNTD shares (before CNTD share split in 2007) left CNTD, so their rights under the Management Grant were forfeited according to the terms of the Management Grant.

There has been no cancellation or modification to any of the Management Grant during the the period ended 3 October 2012 and the year ended 31 December 2011.

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32. RESERVES (continued)

(b) COMPANY

	Share option reserve	Exchange fluctuation reserve	Equity component of convertible bonds	(Accumulated losses)/ Retained profits	Others	Total
Balance at 1 January 2012	**248**	**1,038,138**	**179,361**	**(42,545)**	**10,246**	**1,185,448**
Total comprehensive income for the year	**–**	**(11,672)**	**–**	**2,032,655**	**–**	**2,020,983**
The portion of redemption price of CB4 allocated to equity component (Note 37 (a))	**–**	**–**	**(7,170)**	**–**	**–**	**(7,170)**
Transfer upon partial redemption of CB4 (Note 37 (a))	**–**	**–**	**(169,381)**	**–**	**169,381**	**–**
Transfer upon the expiration of the share option scheme (Note 31)	**(248)**	**–**	**–**	**–**	**248**	**–**
Disposal of CNTD via the Distribution (Note 1 and Note 14)	**–**	**–**	**–**	**(1,983,249)**	**–**	**(1,983,249)**
Balance at 31 December 2012	**–**	**1,026,466**	**2,810**	**6,861**	**179,875**	**1,216,012**

	Share option reserve	Exchange fluctuation reserve	Equity component of convertible bonds	(Accumulated losses)/ Retained profits	Others	Total
Balance at 1 January 2011	248	729,520	179,361	124,762	–	1,033,891
Total comprehensive income for the year	–	308,618	–	(42,494)	–	266,124
Fair value of options related to issuance of convertible bonds	–	–	–	–	10,246	10,246
Cash and scrip dividends	–	–	–	(124,813)	–	(124,813)
Balance at 31 December 2011	248	1,038,138	179,361	(42,545)	10,246	1,185,448

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33. INTEREST-BEARING BANK AND OTHER BORROWINGS

GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
Short-term bank borrowings				
– Secured	**263,904**	200,140	**–**	–
Other short-term borrowings				
– Secured	**–**	185,025	**–**	–
– Unsecured	**154,150**	144,320	**–**	–
Current portion of long-term bank borrowings				
– Secured	**3,985,874**	2,349,574	**649,960**	1,108,086
Current portion of other long-term borrowings				
– Secured	**–**	769,356	**–**	–
– Unsecured	**–**	115,474	**–**	16,794
Borrowings, current portion	**4,403,928**	3,763,889	**649,960**	1,124,880
Long-term bank borrowings				
– Secured	**4,703,304**	9,668,575	**165,698**	–
Other long-term borrowings				
– Secured	**1,944,753**	532,133	**–**	–
– Unsecured	**22,777**	–	**22,777**	–
Borrowings, non-current portion	**6,670,834**	10,200,708	**188,475**	–
The long-term borrowings are repayable as follows:				
– Within 1 year	**3,985,874**	3,234,404	**649,960**	1,124,880
– 1 to 2 years	**3,244,643**	4,474,692	**165,698**	–
– 2 to 3 years	**365,926**	1,639,553	**–**	–
– 3 to 5 years	**1,447,494**	1,375,668	**–**	–
– After 5 years	**1,612,771**	2,710,795	**22,777**	–
	10,656,708	13,435,112	**838,435**	1,124,880
Less: Long-term borrowings, current portion	**(3,985,874)**	(3,234,404)	**(649,960)**	(1,124,880)
Long-term borrowings, non-current portion	**6,670,834**	10,200,708	**188,475**	–

33. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

GROUP AND COMPANY (continued)

Short-term bank borrowing – secured

As at 31 December 2012, a short-term bank loan of approximately HK$264 million (2011: approximately HK$200 million) was secured by the pledge of bank deposits and properties held or under development for sale.

Other short-term borrowing – secured

As at 31 December 2011, the other short-term borrowing of approximately HK$185 million is a loan from a third party trust fund which was secured by the pledge of the Group's leasehold land in Jiaxing.

Long-term bank borrowings – secured

As at 31 December 2012, long-term bank borrowings of approximately HK$8,689 million (2011: approximately HK$12,018 million) were secured by the pledges of the Group's leasehold land, together with bank deposits, property, plant and equipment, investment properties, properties held or under development for sale and an equity interest of a subsidiary. Among the above long-term bank borrowings, a bank loan with a principal of HK$260 million was secured by pledge of a private property held by Mr. Shi Jian, the Chairman of the Company, and Md. Si Xiao Dong, the spouse of Mr. Shi Jian.

Other long-term borrowings – secured

As at 31 December 2012, the long-term borrowings of approximately HK$1,945 million (2011: approximately HK$1,301 million) are from third party trust funds which are secured by the pledge of equity interests in certain subsidiaries of the Group, and entitlement to certain economic benefits (including right to dividends, if any, etc.) in such equity interests. They are also secured by the pledge of leasehold land of approximately HK$3,818 million and properties held or under development for sale of approximately HK$679 million of the Group. The Group has the right to repay the loans (the outstanding balances of principal and interest thereon) in full, at any time or during specified periods prior to expiry of the terms of the loans.

Overall collateral arrangements for bank and other borrowings

As at 31 December 2012, bank deposits of approximately HK$762 million (2011: approximately HK$1,113 million) (Note 30), leasehold land of approximately HK$9,642 million (2011: approximately HK$6,638 million) (see Note 19), investment properties of approximately HK$4,345 million (2011: approximately HK$6,708 million), properties held or under development for sale of approximately HK$3,412 million (2011: approximately HK$3,261 million), property, plant and equipment of approximately HK$767 million (2011: approximately HK$1,404 million) (see Note 17) and equity interests in certain subsidiaries with total costs of approximately HK$4,436 million (2011: approximately HK$1,071 million) were pledged as collateral for the Group's borrowings and banking facilities.

As at 31 December 2012, bank borrowings of HK$100 million (2011: HK$1,037 million) were secured by part of future property pre-sales proceeds under certain projects. For some of such projects, pre-determined amounts of the pre-sale proceeds of certain units will be transferred to restricted bank accounts, until the balance of such restricted bank accounts reached the outstanding balance of such loans. For other such projects, related bank borrowings are required to be repaid when a pre-determined percentage of properties in the projects have been pre-sold.

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33. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

GROUP AND COMPANY (continued)

The weighted average effective interest rates for these borrowings at the end of the reporting period were as follows:

	2012			2011		
	HK$	**AUD**	**RMB**	HK$	US$	RMB
Short-term bank borrowings	**–**	**–**	**6.12%**	3.68%	–	–
Other short-term borrowings	**–**	**–**	**6.00%**	–	–	9.69%
Long-term bank borrowings	**3.85%**	**6.57%**	**6.76%**	2.63%	–	7.34%
Other long-term borrowings	**8.92%**	**–**	**13.80%**	–	6.01%	11.57%

As bank loans are all borrowed at prevailing market interest rates, which would be adjusted from time to time in line with interest rate changes in the market, the carrying amounts of the bank loans approximate to their fair values.

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		**Company**	
	2012	2011	**2012**	2011
Hong Kong dollars	**838,434**	1,308,226	**838,435**	1,108,086
United States dollars	**–**	16,794	**–**	16,794
Australian dollars ("AUD")	**48,023**	–	**–**	–
RMB	**10,188,305**	12,639,577	**–**	–
	11,074,762	13,964,597	**838,435**	1,124,880

The Group had the following undrawn credit facilities as at the end of the reporting period:

	2012	2011
Floating rate loan facilities		
– expiring within 1 year	**58,931**	521,648
– expiring beyond 1 year	**272,150**	664,611
	331,081	1,186,259

34. GUARANTEED SENIOR NOTES

GROUP AND COMPANY

	2012	2011
Guaranteed Senior Notes	**561,539**	559,646

At initial recognition, the Guaranteed Senior Notes in their original currency was as follows:

	US$'000
Face value of Guaranteed Senior Notes	200,000
Less: Issuance cost	(6,841)
Carrying amount on initial recognition	193,159

The movements in the carrying amount of the Guaranteed Senior Notes during the year were as follows:

	2012		2011	
		HK$ equivalent		HK$ equivalent
	US$'000	**HK$'000**	US$'000	HK$'000
At beginning of year	**72,005**	**559,646**	71,605	557,322
Foreign exchange gain	**–**	**(1,082)**	–	(27,902)
Exchange realignment	**–**	**(131)**	–	27,110
Add: Interest expense (Note 9)	**6,602**	**50,911**	6,564	51,094
Less: Payment of interest	**(6,164)**	**(47,805)**	(6,164)	(47,978)
At end of year	**72,443**	**561,539**	72,005	559,646

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34. GUARANTEED SENIOR NOTES (continued)

GROUP AND COMPANY (continued)

On 24 April 2006, the Company issued guaranteed senior notes maturing on 24 April 2013 (the "Maturity Date"), with an aggregate principal amount of US$200 million and a fixed interest rate of 8.625% per annum (the "Guaranteed Senior Notes"). The Guaranteed Senior Notes are guaranteed by some investment holding subsidiaries which are not established in the PRC.

Interest of the Guaranteed Senior Notes is payable semi-annually in arrears on 24 April and 24 October in each year commencing from 24 October 2006. With regard to the principal amount, the Company has the following redemption options:

i) prior to 24 April 2009, redeem on one or more occasions up to 35% of the aggregate principal amount of the Guaranteed Senior Notes originally issued, at a redemption price of 108.625% of the principal amount, plus accrued and unpaid interest to the redemption date, or

ii) at any time or from time to time prior to the Maturity Date, redeem all or part of the Guaranteed Senior Notes at a redemption price equal to 100% of the principal amount thereof plus an applicable premium plus accrued and unpaid interest to such redemption date.

On 25 April 2006, the Guaranteed Senior Notes were listed on the HKEx.

Interest expense on the Guaranteed Senior Notes is calculated using the effective interest method by applying the effective interest rate of 9.30% per annum.

On 9 June 2009, the Company repurchased Guaranteed Senior Notes in an aggregate principal amount of US$128,539 thousand (representing approximately 64.27% of the total aggregate principal amount of US$200 million) in cash. Following the partial repurchase of the Guaranteed Senior Notes, principal amount of the Guaranteed Senior Notes of US$71,461 thousand remained outstanding as at 31 December 2012. The original payment terms of the remaining Guaranteed Senior Notes remained unchanged.

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

35. DEFERRED INCOME

GROUP

		2012	2011
Deferred income arising from:			
Non-current:			
Sale of golf club membership	(i)	–	643,746
Current:			
Land development	(ii)	–	713,852
		–	1,357,598

(i) The revenue arising from the sale of golf club membership was deferred and recognised on the straight-line basis over the expected period when the related benefits would be provided. There was no such balance as of 31 December 2012 as CNTD Group was disposed of in 2012 (see Note 14).

(ii) The deferred revenue arising from land development for sale represents the portion of amounts received/receivable from the land authorities as a result of the sales of parcels of land developed by the Group that are not yet recognised as revenue, as the development of the ancillary public facilities attributable to the parcels of land sold is still in progress. There was no such balance as of 31 December 2012 as CNTD Group was disposed of in 2012 (see Note 14).

36. DEFERRED TAX

GROUP

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, levied by the same tax authority on the same taxable entity.

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36. DEFERRED TAX (continued)

GROUP (continued)

The gross movements in the deferred tax account are as follows:

	2012	2011
At beginning of year	1,637,749	1,644,065
Disposal of CNTD Group as a result of the Distribution (Note 14)	98,417	–
Disposal of a subsidiary (Note 46 (a))	(291,623)	–
Recognised in profit or loss from continuing operations (Note 12)	(84,176)	(86,493)
Recognised in profit or loss from discontinued operation	7,445	478
Exchange realignment	(1,126)	79,699
At end of year	1,366,686	1,637,749

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Tax losses carried forward	Difference in accounting and tax bases arising from golf club revenue and costs	Difference in accounting and tax bases arising from share transfer consideration	Other temporary differences	Total
At 1 January 2011	73,390	138,970	235,667	45,464	493,491
Recognised in profit or loss from continuing operations	54,664	–	51,103	–	105,767
Recognised in profit or loss from discontinued operation	20,074	(3,361)	–	27,427	44,140
Exchange realignment	5,225	6,820	12,770	2,836	27,651
At 31 December 2011	153,353	142,429	299,540	75,727	671,049
Recognised in profit or loss from continuing operations	93,854	–	–	26,058	119,912
Recognised in profit or loss from discontinued operation	24,614	–	(4)	(16,228)	8,382
Disposal of CNTD Group as a result of the Distribution	(63,650)	(141,193)	(193)	(58,724)	(263,760)
Exchange realignment	(171)	(1,236)	(14)	(546)	(1,967)
At 31 December 2012	208,000	–	299,329	26,287	533,616

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

36. DEFERRED TAX (continued)

GROUP (continued)

The movements in deferred tax assets and liabilities during the year are as follows: (continued)

Deferred tax liabilities

	Fair value gains	Excess of fair value over book value in the subsidiaries as a result of business combination	Withholding taxes	Others	Total
At 1 January 2011	937,522	717,148	401,651	81,235	2,137,556
Recognised in profit or loss from continuing operations	30,180	(82,361)	31,979	81,813	61,611
Recognised in profit or loss from discontinued operation	2,444	(2,007)	1,844	–	2,281
Exchange realignment	47,181	33,771	20,634	5,764	107,350
At 31 December 2011	1,017,327	666,551	456,108	168,812	2,308,798
Recognised in profit or loss from continuing operations	(25,082)	(6,403)	(24,656)	91,877	35,736
Recognised in profit or loss from discontinued operation	16,231	(404)	–	–	15,827
Disposal of a subsidiary (Note 46 (a))	(261,818)	–	(25,401)	(4,404)	(291,623)
Disposal of CNTD Group as a result of the Distribution	(82,410)	(57,070)	(25,863)	–	(165,343)
Exchange realignment	(2,145)	(674)	(530)	256	(3,093)
At 31 December 2012	**662,103**	**602,000**	**379,658**	**256,541**	**1,900,302**

As at 31 December 2012, the deferred tax asset arising from unused tax losses amounted to approximately HK$208 million (2011: HK$153 million), which mainly consists of the deferred tax asset of a subsidiary of approximately HK$185 million (2011: HK$94 million). With respect to the recognition of the deferred tax assets, after considering the evidence including the approval from local authorities permitting the sales of the properties, and estimated future taxable profit by reference to recent selling prices of certain properties and current market condition, the Group believe that sufficient taxable profit will be available against which the unused tax losses in the foreseeable future.

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

36. DEFERRED TAX (continued)

GROUP (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2012	2011
Net deferred tax assets recognised in the consolidated statement of financial position	**(533,616)**	(604,208)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**1,900,302**	2,241,957
	1,366,686	1,637,749

Deferred tax assets have not been recognised in respect of the following items:

	2012	2011
Tax losses	**492,537**	866,258
	492,537	866,258

The above tax losses arising in Mainland China for offsetting against future taxable profit will expire in one to five years. Deferred tax assets have not been recognised in respect of the tax losses and deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these temporary differences can be utilised.

Pursuant to the resolution of board of directors of the Company, part of PRC subsidiaries' profits generated from 2011 onwards will be retained by PRC subsidiaries for use in future operations or investments. In the opinion of the directors, it is probable that the temporary differences relating to the profits that are not expected to be distributed will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$750 million (2011: approximately HK$320 million).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

37. CONVERTIBLE BONDS

GROUP AND COMPANY

The carrying value of the host debt components of the convertible bonds as at the end of the reporting period was as follows:

	2012	2011
Convertible Bonds 4 – host debt (a)	**7,183**	515,814
	7,183	515,814

(a) Convertible Bonds 4 ("CB4")

On 23 July 2009 (the "Issue Date"), the Company issued Convertible Bonds (the "CB4"), maturing on 23 July 2014, in the aggregate principal amount of RMB446.9 million with an initial conversion price of HK$1.056 per share at a fixed exchange rate applicable to the conversion of RMB0.8818 = HK$1.00 per ordinary share of the Company (subject to certain anti-dilutive adjustments). The CB4 bear interest at the coupon rate of 6% per annum, payable semi-annually in arrears on 23 January and 23 July in each year. The bondholders have the option to convert the CB4 to ordinary shares of the Company at any time after 41 days from the Issue Date to 10 business days before their maturity. On 23 July 2012 (the "Put Option Date"), the bondholders would have the right (the "Put Option") to require the Company to redeem all or some of the CB4 at a redemption price equal to the US$ equivalent of 100% of their principal amount, together with unpaid accrued interest. The Company also had the option to redeem, at an amount at 100% of the principal amount, all of the CB4 if at least 90% in the principal amount of the CB4 originally issued have already been converted, redeemed or purchased and cancelled before 30 days prior to its maturity date.

On 24 July 2009, the CB4 were listed on the HKEx.

The conversion option embedded in the CB4 meets the definition of equity instruments of the Company, and therefore it is classified as equity and presented separately from the liability component of the convertible bonds. The other embedded derivatives are not separated from host debt because their economic characteristics and risks are closely related to those of the host debt. The liability component is initially recognised at its fair value, net of transaction costs allocated to the liability component, and is subsequently measured at amortised cost. The residual amount (i.e., the excess of net proceeds over the amount allocated to the liability component) is assigned as the equity component (the conversion option) and is included in shareholders' equity.

On 23 July 2012, an aggregate principal amount of RMB440 million (approximately HK$541 million) was redeemed at the redemption price of RMB440 million due to the exercise of the Put Option by the bondholders. As a result of the redemption, the Company allocated the redemption price and any transaction costs to the liability and equity components of CB4. The redeemed portion of CB4's liability components was derecognised, and the resulting gain of RMB6 million (approximately HK$7 million), i.e., the difference between the portion of redemption price of RMB434 million (approximately HK$534 million) allocated to the liability components and their carrying amounts of RMB440 million (approximately HK$541 million), was recognised in the profit or loss, while the portion of redemption price of RMB6 million (approximately HK$7 million) allocated to equity component was recognised in equity. Meanwhile, the portion of equity component recognised upon issuance of the CB4 relating to the redeemed part of CB4, amounting to HK$169 million, was transferred from equity component of convertible bonds to other reserve.

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

37. CONVERTIBLE BONDS (continued)

GROUP AND COMPANY (continued)

(a) Convertible Bonds 4 ("CB4") (continued)

The face value of the outstanding CB4 as at 31 December 2012 amounted to RMB7 million (equivalent to HK$9 million) (2011: RMB447 million (equivalent to HK$525 million)).

The various components of the respective convertible bonds recognised on initial recognition are as follows:

	CB4
Gross proceeds from issuance of convertible bonds	507,149
Transaction costs attributable to the host debt component	(17,378)
Transaction costs attributable to the equity component	(10,535)
Equity component, net of transaction costs	(179,361)
Host debt component on initial recognition upon issuance	299,875

The movements in the host debt component of CB4 for the year are as follows:

	2012	2011
Host debt component at beginning of year	**515,814**	354,548
Interest expense (Note 9)	**54,805**	71,007
Adjustment to the carrying amount due to changed expected life (Note 9)	**(1,795)**	101,862
Payment of interest	**(19,147)**	(32,169)
Redemption	**(540,617)**	–
Exchange realignment	**(1,877)**	20,566
Host debt component at end of year	**7,183**	515,814
Less: Amount classified as current liability	**–**	515,814
Amount classified as non-current liability	**7,183**	–

Interest expenses on the CB4 are calculated using the effective interest method by applying the effective interest rate of 19.93% per annum to the host debt component.

As at 31 December 2011, due to the change in market condition, the likelihood of bondholders to exercise the Put Option embedded in CB4 significantly increased in 2011, thus the Company increased the carrying amount of CB4 by approximately RMB84 million (approximately HK$102 million) to reflect the shortened expected life of CB4, with a corresponding charge to interest expense.

As at 31 December 2012, after the expiration of the unexercised part of the Put Option, the expected life of remaining CB4 was adjusted accordingly, resulting in a decrease of approximately RMB1.5 million (approximately HK$1.8 million) in the carrying amount of remaining CB4 and a corresponding reduction in interest expense.

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

37. CONVERTIBLE BONDS (continued)

GROUP AND COMPANY (continued)

(b) Convertible Bonds 5 ("CB5")

On 6 May 2011, the Company and SRE Investment Holding Limited ("the Subscriber", the controlling shareholder of the Company) entered into the Convertible Note Subscription Agreement ("CB5 Subscription Agreement"), pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Convertible Bonds (the "CB5") in the principal amount of HK$550 million with an initial conversion price of HK$1 per share (subject to certain anti-dilutive adjustments). The coupon interest rate is 2% per annum, payable semi-annually in arrears. The bondholder will have the option to convert the CB5 to ordinary shares of the Company at any time from the issue date to 30 business days before its maturity. The Company will have the option to redeem, at an amount at 100% of the principal amount, together with all interest accrued thereon and remained outstanding (if any), at any time on or after the first anniversary of its issuance.

Since all the conditions have been fulfilled on 14 June 2011, completion of the subscription was originally agreed to take place on 12 September 2011 (i.e., 90 days after 14 June 2011).

On 6 September 2011, the Subscriber and the Company agreed to postpone the completion of the subscription to 30 December 2011 or such other date as the Company and the Subscriber may agree in writing. On 10 November 2011, the Company and the Subscriber agreed to complete the subscription of CB5 on that date. On the same date, the Subscriber has given notice to the Company to convert the entire CB5 at the pre-determined conversion price of HK$1.00 per share to 550 million shares of the Company.

Due to the existence of an extended period between the date of agreement and the date of all conditions and completion of subscription/issuance of CB5 were fulfilled, and pre-determined issuance/subscription price, the Company's rights and obligations under the CB5 Subscription Agreement met the definition of a derivative which was reported at fair value through profit or loss.

The initial fair value of the derivative (an asset) of HK$10,246 thousand was recognised in equity. The fair value of the derivative asset increased to HK$120,552 thousand on the completion date of issuance/subscription of CB5 (10 November 2011), resulting in a gain of HK$110,306 thousand being recorded (Note 6) during 2011.

Since the conversion option embedded in CB5 does not meet the definition of equity and is a liability, upon issuance of CB5, the Company designated the entire CB5 as a financial liability at fair value through profit or loss.

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31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

37. CONVERTIBLE BONDS (continued)

GROUP AND COMPANY (continued)

(b) Convertible Bonds 5 ("CB5") (continued)

Upon the issuance of CB5 on 10 November 2011, the Subscriber paid the proceeds of HK$550 million, which equalled to the total fair value of CB 5 (HK$429,448 thousand) and the derivative (HK$120,552 thousand) on that date. The related transaction cost of HK$3,469 thousand incurred was recorded as an expense (Note 7).

Upon conversion of CB5 (on the same date as the issue date, 10 November 2011), the carrying amount of CB5 of HK$429,448 thousand was transferred to the issued capital and premium.

The fair values of the derivative and CB5 were appraised by Jones Lang LaSalle, using generally accepted valuation methodologies, including but not limited to, the Binomial Lattice model.

The movements of CB5 for the year ended 31 December 2011 were as follows:

	2011
Fair value at issue date	429,448
Conversion to shares	(429,448)
At end of year	–

38. DERIVATIVE FINANCIAL ASSET

GROUP

	2012	2011
Derivative in connection with acquisition of a non-controlling interest	**74,608**	54,027
	74,608	54,027

As of 31 December 2011, this derivative financial asset represents a call option to purchase in aggregate up to 40% of the equity interest (the "Interest") in Huarui Asset Management, at a price equivalent to the 90% of fair value of the Interest based on valuation by an independent property valuer. This call option was acquired in a transaction with a shareholder of the Interest and may not be exercised by the Company more than once from time to time and at any time during the period of 2 years from May 2010. On 9 May 2012, the Company and the shareholder agreed to extend the call option to 31 December 2013.

On 28 December 2012, the Group exercised the call option and simultaneously entered into the acquisition agreement in relation to the Interest with the 40% shareholder. As a result, the derivative became a forward (conditional upon fulfillment of certain conditions) to buy the Interest at a price equivalent to the 90% of the fair value of the Interest based on valuation result of net assets of Huarui Asset Management by an independent property valuer.

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39. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

GROUP

	2012	2011
Advances received from the pre-sale of properties under development	**1,495,886**	2,565,079

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest-bearing. Business tax, generally calculated at a rate of 5% on the advances received, is imposed by the tax authorities.

40. TRADE PAYABLES

GROUP

An aged analysis of the trade payables as at the end of the reporting period, from the date when they were incurred, is as follows:

	2012	2011
Within 1 year	**1,623,171**	4,273,196
1 to 2 years	**109,111**	643,046
Over 2 years	**332,390**	342,782
	2,064,672	5,259,024

Trade payables represent payables arising from property construction and land development. The trade payables are non-interest-bearing and are normally settled within one year.

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

41. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
Payables for prepaid land lease payments	**222,273**	839,078	–	–
Receipts in excess of the CNTD Group's estimated share of land sales proceeds	–	35,038	–	–
Deposits received from and other payable to customers and construction companies	**252,585**	158,638	–	–
Business tax and surtaxes payable	**26,536**	436,347	–	–
Interest payable to a former non-controlling shareholder of a subsidiary	**6,094**	6,095	–	–
Payable to a non-controlling shareholder	**12,417**	11,213	–	–
Dividends payable to non-controlling shareholders of subsidiaries	**38,856**	11,179	–	–
Relocation costs payable	**6,422**	6,423	–	–
Deposits from stores, rents received for developers and public utility fees collected and paid for tenants	**49,355**	49,063	–	–
Estimated payables to contractors for CNTD Group's Changchun project	–	32,266	–	–
Advance of public facility fee from government to CNTD Group	–	135,685	–	–
Accruals in CNTD Group for commission of golf club membership	–	31,004	–	–
Payroll and welfare payable	**14,491**	14,759	–	–
Accrued interest	**12,144**	25,457	**5,514**	17,738
Payables to former shareholders of a subsidiary for business combination	**134,761**	12,335	–	–
Payables to former shareholders of subsidiaries for acquisition of non-controlling interests	**20,964**	20,970	–	–
Payables in relation to international golf tournament by CNTD Group	–	25,450	–	–
Obligation of CNTD Group to construct a food market in Chengdu	–	16,928	–	–
Payable to the former non-controlling shareholder of a disposed subsidiary	**24,664**	–	–	–
Others	**49,805**	133,425	**1,495**	1,328
	871,367	2,001,353	**7,009**	19,066

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before tax to cash used in operations:

	2012	2011
Profit/(loss) before tax:		
From continuing operations	600,635	976,065
From discontinued operation	(97,182)	(237,862)
Adjustments for:		
Depreciation of property, plant and equipment	144,170	190,682
Bad debt provision of other receivables	910	268,145
(Gain)/loss on disposal of property, plant and equipment, net	(198)	23
Share of profits and losses of associates	(7,084)	(6,845)
Share of profits and losses of joint ventures	(293)	1,076
Fair value gain on derivative financial instruments	(20,524)	(105,765)
Fair value gain on completed investment properties	(35,723)	(140,780)
Fair value loss on investment properties under construction	–	11,190
Gain on disposal of subsidiaries	(273,428)	(309)
Gain on redemption of CB4	(7,170)	–
Impairment of goodwill	–	55,562
Expenses incurred for the issuance of CB5	–	3,469
Management share option expenses	2,558	6,340
Finance income	(41,046)	(148,028)
Finance costs	360,566	531,994
	626,191	1,404,957
(Increase)/decrease in restricted bank deposits	(1,029)	93,043
Decrease in other non-current assets	–	1,004
Increase in prepaid land lease payments	(181,583)	(1,439,377)
Decrease/(increase) in properties held or under development for sale	335,194	(834,243)
Decrease in inventories	237	12,730
Decrease in prepayments and other current assets	139,843	326,171
(Increase)/decrease in other receivables	(319,398)	23,414
(Increase)/decrease in trade receivables	(64,569)	553,129
(Decrease)/increase in trade payables	(617,463)	1,669,440
(Decrease)/increase in other payables and accruals	(210,437)	353,982
Increase in land development for sale	(101,618)	(1,527,757)
Decrease in deferred income	(2,841)	(382,888)
Decrease in advances received from the pre-sale of properties under development	(710,559)	(2,160,646)
Cash used in operations	(1,108,032)	(1,907,041)

(b) Except for the disposal of shares in CNTD in the Distribution (see Note 1 and Note 14), there's no other significant non-cash transaction during the year ended 31 December 2012.

Notes to Financial Statements

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43. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms mainly ranging from 1 to 20 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

GROUP

	2012	2011
Within one year	**93,955**	117,106
In the second to fifth years, inclusive	**304,066**	323,525
After five years	**516,063**	68,591
	914,084	509,222

The contingent rental income recognised in 2012 was HK$12,503 thousand (2011: HK$10,739 thousand).

(b) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms mainly ranging from 1 to 5 years, and those for office equipment are for terms mainly ranging between 2 and 5 years.

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

GROUP

	2012	2011
Within one year	**7,049**	7,201
In the second to fifth years, inclusive	**7,529**	2,251
After five years	**740**	1,110
	15,318	10,562

COMPANY

	2012	2011
Within one year	**5,572**	5,255
In the second to fifth years, inclusive	**6,984**	876
	12,556	6,131

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44. COMMITMENTS AND CONTINGENCIES

(a) The Group and the Company had the following capital commitments and commitments in respect of land or property development for sale at the end of the reporting period:

	Group		Company	
	2012	2011	**2012**	2011
Contracted, but not provided for				
Investment property under construction	**5,135**	9,962	–	–
Land development for sale in CNTD Group	–	1,512,599	–	–
Properties held or under development for sale	**1,267,637**	2,485,241	–	–
Property, plant and equipment and leasehold land	**195,541**	1,607,050	–	–
Consideration for potential amount in connection with acquisition of non-controlling interest	**458,000**	–	–	–
	1,926,313	5,614,852	–	–
Authorised, but not contracted for				
Investment property under construction	–	192,323	–	–
Land development for sale in CNTD Group	–	5,779,957	–	–
Properties held or under development for sale	**965,763**	1,641,516	–	–
Property, plant and equipment and leasehold land	**189,122**	3,445,562	–	–
	1,154,885	11,059,358	–	–
	3,081,198	16,674,210	–	–

(b) The Group provided guarantees in respect of the mortgage facilities granted by certain banks to the certain purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates of grant of the relevant mortgage loans and end when the purchasers pledge related property certificates as securities to the banks for the mortgage loans granted by the banks. The Group entered into guarantee contracts of principal amounts totalling approximately RMB452 million (equivalent to HK$557 million) and these contracts were still effective as at the close of business on 31 December 2012.

The Group did not incur any material losses during the financial year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The Directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty, because the mortgage principals were normally below 70% of sales price of the properties at date of sales agreement, and therefore no provision has been made in connection with the guarantees.

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45. BUSINESS COMBINATION

During the year ended 31 December 2012, the Group acquired a 100% equity interest in Wuxi Yongqing.

The fair values of the identifiable assets and liabilities of Wuxi Yongqing as at the date of acquisition were as follows:

	18 October 2012
Prepaid land lease payments	483,699
Properties held or under development for sale	10,745
Cash and bank balances	416
Other payables	(470,404)
Total identifiable net assets at fair value	24,456
Satisfied by cash	24,456

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	2012
Cash consideration	24,456
Cash and bank balances acquired	(416)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	24,040

Had the combination taken place at the beginning of the year, there would be no significant impact on revenue and profit from continuing operations of the Group for the year.

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46. DISPOSAL OF SUBSIDIARIES OTHER THAN CNTD GROUP

(a) During the year ended 31 December 2012, the Group disposed of its entire 100% interest in Go High.

	28 June 2012
Net assets disposed of:	
Completed investment properties	1,344,759
Cash and bank balances	718,411
Property, plant and equipment	40
Other receivables	5
Deferred tax liabilities	(291,623)
Interest-bearing bank borrowings	(1,330,878)
Other payables and accruals	(60,879)
Advances received from the pre-sale of properties under development	(1,487)
	378,348
Gain on disposal of a subsidiary (Note 6)	273,428
Satisfied by cash	651,776

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2012
Cash consideration	651,776
Cash and bank balances disposed of	(718,411)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(66,635)

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46. DISPOSAL OF SUBSIDIARIES OTHER THAN CNTD GROUP (continued)

(b) During the year ended 31 December 2012, the Group disposed of its entire 80% equity interest in New Bund.

	30 November 2012
Net assets disposed of:	
Prepaid land lease payments, current portion	709,623
Properties held or under development for sale	35,481
Cash and bank balances	1
Other payables and accruals	(621,876)
Non-controlling interest	(24,646)
	98,583
Gain on disposal of a subsidiary	–
Satisfied by cash	98,583

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2012
Cash consideration	98,583
Cash and bank balances disposed of	(1)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	98,582

47. RELATED PARTY TRANSACTIONS

GROUP

In addition to the related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties.

As mentioned in Note 1, in the opinion of the Directors, as at 31 December 2012 and 2011, the Company's holding company was SREI, also, the Company used to be the parent of CNTD, and since 3 October 2012 when the Distribution were completed, CNTD became a fellow subsidiary.

Prior to 3 October 2012, transactions with CNTD were eliminated when preparing consolidated financial statements as CNTD was a subsidiary of the Company during that period. Therefore, only transactions with CNTD that occurred after 3 October 2012 are disclosed as related party transactions here.

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47. RELATED PARTY TRANSACTIONS (continued)

GROUP (continued)

(a) Related party transactions during the year:

i) *Sales to and purchases from associates and the relevant balances*

	2012	2011
Sale of goods to Broadband *	–	840
Trade receivable from Broadband	304	304
Purchase goods from New Technology *	3,818	9,832
Trade payable to New Technology	1,893	–

ii) *Property management service to a related party and the relevant balances*

	2012	2011
Property management service to CNTD Group after the disposal of CNTD *	3,204	–
Trade receivable from CNTD Group after the disposal of CNTD	1,688	–

* The transactions were based on negotiated prices.

iii) *Loan guarantee/security*

A term loan of HK$260 million (entered into in 2012) is secured by a property in Hong Kong jointly owned by Mr. Shi Jian (Chairman) and Md. Si Xiao Dong (2011: loans of HK$902 million were guaranteed by Mr. Shi Jian).

iv) *Compensation to key management personnel of the Group*

	2012	2011
Salaries and other short-term employee benefits	21,644	24,901
Share-based payments (Management Grant)	618	3,064
	22,262	27,965

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47. RELATED PARTY TRANSACTIONS (continued)

GROUP (continued)

(a) Related party transactions during the year: (continued)

v) Sales of properties to key management personnel and their close family members of the Group

	2012	2011
Sales of properties	–	1,738
	–	1,738

The sales of properties were based on negotiated contract prices.

vi) Issuance of rights shares

On 30 April 2012, the Group announced the issuance of rights shares of HK$0.10 each on the basis of one rights share for every seven shares held by the qualifying shareholders on the record date at HK$0.30 per rights share. The rights issue was fully underwritten by SREI, the controlling shareholder, to whom a commission of HK$100 thousand was paid. SREI eventually subscribed a total of 538,306,965 rights shares.

vii) Financial support provided to CNTD when CNTD was a subsidiary of the Group

On 5 March 2012, when CNTD was a subsidiary of the Group in order to ensure CNTD has necessary financial resources to support its operations and meet its liabilities when they fall due, the Company (as the then parent of CNTD) confirmed in writing to CNTD that, during the period of twelve months from 8 March 2012, upon receipt of request from the management of CNTD, the Company or its designated companies would unconditionally make payment in cash, up to a total of RMB600 million, to CNTD, as financial support. No such payments were made to CNTD before expiry of the financial support.

The related party transaction under the underwriting agreement in respect of item vi) above constituted a connected transaction (which was exempted from all reporting, announcement and independent shareholders' approval requirement). The related party transaction in respect of item ii) above also constituted a connected transaction (entered into when CNTD was still a subsidiary of the Company) upon the disposal of CNTD in October 2012, and till 31 December 2012 when the underlying agreement of the transaction expired, as defined in Chapter 14A of the rules governing the listing of securities on the HKEx.

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48. FINANCIAL INSTRUMENTS BY CATEGORY

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

GROUP

Financial assets	2012	2011
Loans and receivables		
– Other receivables	1,409,084	945,266
– Trade receivables	31,121	188,477
– Cash and bank balances	2,032,007	2,521,487
Financial asset at fair value through profit or loss		
– Derivative financial asset	74,608	54,027
	3,546,820	3,709,257

Financial liabilities	2012	2011
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	11,074,762	13,964,597
– Guaranteed senior notes	561,539	559,646
– Convertible bonds – host debts	7,183	515,814
– Trade payables	2,064,672	5,259,024
– Others	830,340	1,533,319
	14,538,496	21,832,400

COMPANY

Financial assets	2012	2011
Loans and receivables		
– Dividends receivable from subsidiaries	2,295,550	929,938
– Advances to subsidiaries	1,337,422	2,788,543
– Cash and bank balances	20,724	69,320
	3,653,696	3,787,801

Financial liabilities	2012	2011
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	838,435	1,124,880
– Guaranteed senior notes	561,539	559,646
– Convertible bonds – host debts	7,183	515,814
– Others	7,009	19,066
	1,414,166	2,219,406

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49. FAIR VALUE AND FAIR VALUE HIERARCHY

Fair values of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. When an active market exists, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market or when current market prices are not available, fair value is determined using valuation techniques (Note 2.4).

The Group's financial assets mainly include cash and bank balances, receivables and derivative financial asset.

The Group's financial liabilities mainly include interest-bearing bank and other borrowings, guaranteed senior notes, convertible bonds and payables.

Except as indicated below, the fair values of the Group's and the Company's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and appropriate valuation models.

GROUP AND COMPANY

	2012		2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Guaranteed senior notes	**561,539**	**544,914**	559,646	426,969
Convertible bonds – host debts	**7,183**	**6,712**	515,814	551,805

The Group entered into derivative financial instrument in connection with issuance of CB5 (Note 37(b)) in 2011. The Group also had derivative in connection with acquisition of a non-controlling interest in one of its subsidiaries (Note 38) as of 31 December 2012 and 2011, the derivatives are measured using generally accepted valuation techniques including the Binomial Lattice model. The model incorporates various inputs the value of the underlying equity interest, volatility and the interest rate curves. The carrying amounts of the derivatives were the same as their fair values.

49. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy

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

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

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

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

Asset measured at fair value:

Group

As at 31 December 2012

	Level 1 **HK$'000**	**Level 2** **HK$'000**	**Level 3** **HK$'000**	**Total** **HK$'000**
Derivative financial asset (Note 38)	**–**	**–**	**74,608**	**74,608**

As at 31 December 2011

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial asset (Note 38)	–	–	54,027	54,027

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

49. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

The movements in fair value measurements in Level 3 during the year are as follows:

	2012	2011
Derivative financial asset		
At 1 January	54,027	55,894
Addition relating to CB5 Subscription Agreement (Note 37(b))	–	10,246
Total gains recognised, net (Note 6)	20,524	105,765
Settlement upon issuance of CB5 (Note 37(b))	–	(120,552)
Exchange realignment	57	2,674
At 31 December	74,608	54,027

During 2012, there were no transfers at fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2011: Nil).

Liabilities measured at fair value:

The Group did not have any financial liability measured at fair value as at 31 December 2012 and 2011.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, guaranteed senior notes, other interest-bearing loans, and cash and bank deposits. The main purpose of these financial instruments is to raise funds to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group does not enter into derivative transactions for trading purposes, the derivative instrument held by the Group is a call option held by the Group for a possible future acquisition of a non-controlling interest. The Group's accounting policies in relation to derivatives are set out in Note 2.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank and other borrowings. The Group does not use derivative financial instruments to manage its interest rate risk. The interest rates and terms of repayment of the borrowings are disclosed in Note 33.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates of the major currencies in which the Group's borrowings are denominated, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings). The Group's and the Company's equity is not affected, expect for the consequential effect on retained profits (a component of the Group's and the Company's equity) by the changes in profit before tax.

	Group		Company	
	2012	2011	**2012**	2011
	Impact on profit before tax	Impact on profit before tax	**Impact on profit before tax**	Impact on profit before tax
Changes in variables – RMB interest rate				
+ 50 basis points	**(50,941)**	(63,200)	**–**	–
- 50 basis points	**50,941**	63,200	**–**	–
Changes in variables – HK$ interest rate				
+ 50 basis points	**(4,192)**	(6,541)	**(4,192)**	(6,541)
- 50 basis points	**4,192**	6,541	**4,192**	6,541

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Most of the Group's operating entities operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk with only limited exposure arising primarily with respect to cash at banks, guaranteed senior notes, convertible bonds and bank borrowings, which are mainly denominated in United States dollars ("US$") or Hong Kong dollars ("HK$").

Renminbi is not a freely convertible currency. The conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and the HK$ exchange rates, with all other variables held constant, of the Group's and the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). The Group's and the Company's equity is not affected, expect for the consequential effect on retained profits (a component of the Group's and the Company's equity) by the impact on profit before tax is disclosed as below.

	Group		**Company**	
	2012	2011	**2012**	2011
	Impact on profit before tax	Impact on profit before tax	**Impact on profit before tax**	Impact on profit before tax
Changes in exchange rate of US$ against Renminbi				
+ 5%	**(26,958)**	(25,642)	**(27,135)**	(28,294)
- 5%	**26,958**	25,642	**27,135**	28,294
Changes in exchange rate of HK$ against Renminbi				
+ 5%	**(41,444)**	(52,090)	**(41,449)**	(52,662)
- 5%	**41,444**	52,090	**41,449**	52,662

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk mainly arises from cash at banks, trade receivables and other receivables, the balances of which represent the maximum credit risk exposure of the Group. For the sale of developed properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks. Receivable balances are monitored on an on-going basis other than the significant receivables in Note 28. There is no other significant concentration of credit risk within the Group as other debtors of the Group's receivables are widely dispersed and the majority of the Group's financial assets are cash at banks as at 31 December 2012.

The table below shows the maximum exposure to credit risk for the assets subject to credit risk at the end of the reporting period. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancement.

	Group		Company	
	2012	2011	**2012**	2011
Financial assets				
Derivative financial asset	**74,608**	54,027	**–**	–
Loans and receivables				
– Dividends receivable from subsidiaries	**–**	–	**2,295,550**	929,938
– Advances to subsidiaries	**–**	–	**1,337,422**	2,788,543
– Other receivables	**1,409,084**	945,266	**–**	–
– Trade receivables	**31,121**	188,477	**–**	–
– Cash at banks	**2,027,316**	2,519,468	**20,710**	69,293
Total credit risk exposure	**3,542,129**	3,707,238	**3,653,682**	3,787,774

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group maintains sufficient liquidity at all times with a financial planning system which is used to monitor the Group's future state of liquidity as estimated from the results of the Group's strategic and planning process. A 12-month forecast of fund requirements is updated monthly for the latest development.

Other than properties developed for sale, the Group also develops and holds properties for long-term, such as hotel properties and investment properties. Such long-term assets have constituted an increasing proportion of total assets in recent years, which bring liquidity risk to the Group. In order to mitigate the liquidity risk, the Group adjusted its financing strategy to get more long-term borrowings and increase equity through the issuance of convertible bonds as well as new shares.

The Group has developed strategic relationship with certain major state-owned banks that will normally provide financing to the Group when approval from the relevant government authorities for the commencement of a project is obtained. The Group also seeks financing from overseas markets through close cooperation with several world-wide banks.

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

GROUP

	2012					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest-bearing bank and other borrowings	**–**	**225,291**	**4,917,643**	**6,128,586**	**1,915,970**	**13,187,490**
Guaranteed Senior Notes	**–**	**–**	**577,801**	**–**	**–**	**577,801**
Convertible bonds	**–**	**259**	**259**	**9,150**	**–**	**9,668**
Trade payables	**194,889**	**33,949**	**1,726,957**	**108,877**	**–**	**2,064,672**
Others	**17,612**	**49,276**	**364,630**	**386,678**	**–**	**818,196**
	212,501	**308,775**	**7,587,290**	**6,633,291**	**1,915,970**	**16,657,827**

	2011					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	201,996	210,312	4,844,532	8,501,091	3,215,380	16,973,311
Guaranteed Senior Notes	–	–	47,904	579,359	–	627,263
Convertible bonds	–	16,538	567,790	–	–	584,328
Trade payables	839,422	27,148	4,090,494	301,960	–	5,259,024
Others	70,925	63,094	330,462	1,043,226	155	1,507,862
	1,112,343	317,092	9,881,182	10,425,636	3,215,535	24,951,788

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows: (continued)

COMPANY

	2012					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest-bearing bank and other borrowings	**–**	**3,972**	**677,768**	**169,626**	**22,777**	**874,143**
Guaranteed Senior Notes	**–**	**–**	**577,801**	**–**	**–**	**577,801**
Convertible bonds	**–**	**259**	**259**	**9,150**	**–**	**9,668**
Others	**–**		**1,495**	**–**	**–**	**1,495**
	–	**4,231**	**1,257,323**	**178,776**	**22,777**	**1,463,107**

	2011					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	–	4,946	1,140,748	–	–	1,145,694
Guaranteed Senior Notes	–	–	47,904	579,359	–	627,263
Convertible bonds	–	16,538	567,790	–	–	584,328
Others	–	–	1,328	–	–	1,328
	–	21,484	1,757,770	579,359	–	2,358,613

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

As the Group is mainly engaged in the development of properties and large-scale new towns, it needs substantial amount of funds. The Group monitors capital using a gearing ratio, as defined by management for capital management purposes, which is net debt divided by the Capital plus net debt.

Notes to Financial Statements

31 December 2012 (Amounts expressed in Hong Kong dollar to nearest thousand unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

Net debt includes interest-bearing bank and other borrowings, Guaranteed Senior Notes and liability components (host debts) of convertible bonds and less cash and bank balances. Capital includes equity attributable to owners of the parent and non-controlling interests. The gearing ratios are calculated as follows:

	2012	2011
Interest-bearing bank and other borrowings (Note 33)	**11,074,762**	13,964,597
Convertible bonds – host debts (Note 37)	**7,183**	515,814
Guaranteed Senior Notes (Note 34)	**561,539**	559,646
Less: Cash and bank balances (Note 30)	**(2,032,007)**	(2,521,487)
Net debt	**9,611,477**	12,518,570
Equity attributable to owners of the parent	**9,057,994**	10,488,524
Non-controlling interests	**704,340**	2,485,979
Capital	**9,762,334**	12,974,503
Capital and net debt	**19,373,811**	25,493,073
Gearing ratio	**50%**	49%

51. EVENT AFTER THE REPORTING PERIOD

On 21 February 2013, the Company issued a circular relating to a major connected transaction for exercise of call option (as mentioned in Note 38) and acquisition of 40% interest in Huarui Asset Management. The acquisition consideration is HK$650 million in form of cash, whereas part of the consideration will be settled by way of an earnest money of HK$192 million (see Note 27(a)) paid in 2011. Upon completion of this transaction, Huarui Asset Management will become a wholly-owned subsidiary of the Company.

52. COMPARATIVE AMOUNTS

The comparative statement of comprehensive income has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (Note 14).

53. APPROVAL OF THE FINANCIAL STATEMENTS

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