SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司

(Stock Code: 1207)

Annual Report 2013

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 the 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				
	2013	2012	2011	2010	2009
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
Turnover, net	**3,344**	3,582	6,786	6,289	2,831
Gross Profit	**956**	1,000	1,867	2,539	1,237
Profit before Taxation	**500**	504	738	1,531	1,525
Taxation	**(295)**	(196)	(319)	(815)	(507)
Profit after Taxation	**205**	308	419	716	1,018
Non-controlling Interests	**(5)**	59	78	(86)	(233)
Profit Attributable to owners of parent	**200**	367	497	630	785
Proposed Dividends	**(60)**	–	–	(105)	(159)
Earnings per share					
– Basic	**3.53 Cents**	6.85 Cents	11.41 Cents	16.90 Cents	23.57 Cents
– Diluted	**3.53 Cents**	6.85 Cents	11.41 Cents	16.29 Cents	22.76 Cents
Total Assets	**32,040**	29,355	43,656	40,742	34,674
Total Liabilities	**22,487**	19,593	30,681	29,415	23,366
Net Assets	**9,553**	9,762	12,975	11,327	11,308
Cash reserves	**2,941**	2,032	2,521	5,403	4,603
Shareholders' funds	**9,231**	9,058	10,489	8,545	8,192

	Year ended 31 December				
	2013	2012	2011	2010	2009
Return on Equity (%)	**2%**	4%	5%	7%	10%
Current Ratio (times)	**2.34x**	2.00x	1.82x	1.75x	1.66x
Total Liabilities to Net Assets	**2.35x**	2.01x	2.36x	2.60x	2.07x
Net Debt to Shareholders' Funds Ratio (times)*	**2.12x**	1.94x	2.68x	2.81x	2.29x

* 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.

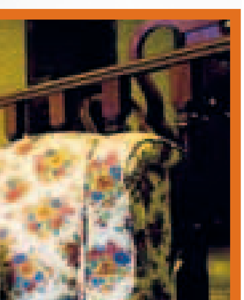
Shanghai Project





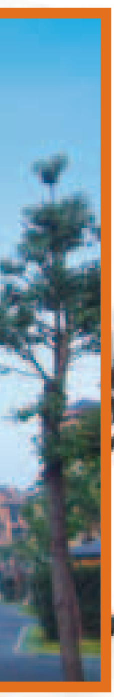
Shanghai Project

Shenyang Project

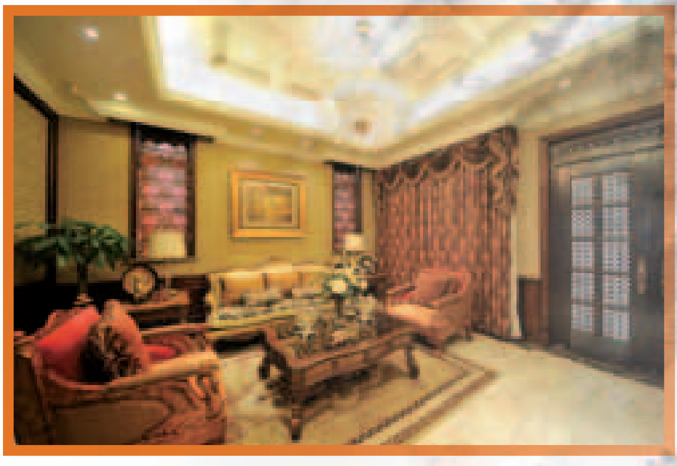



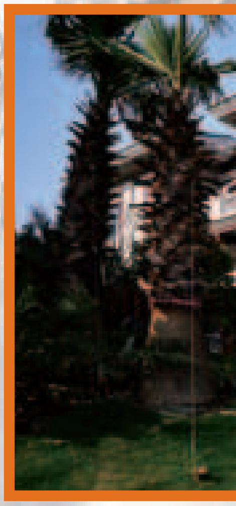
Jiaxing
Project



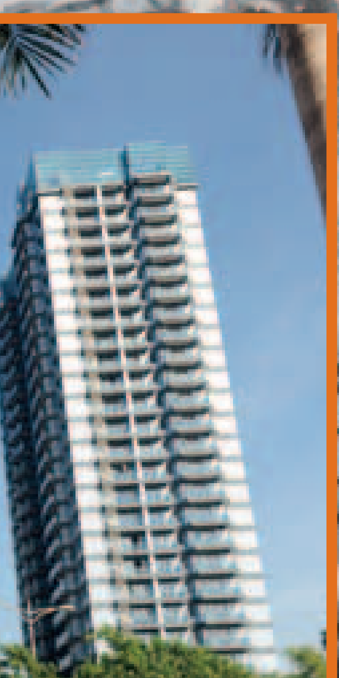




Wuxi
Project





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 2013 to you.

Business Review

In 2013, the Group's major projects available for sale were Cedar Villa Original, Oasis Central Ring Centre, SRE Financial Centre and Rich Gate Seaview in Shanghai; Jiaxing Project in Zhejiang; Haikou Bund Centre in Haikou; Wuxi Jiangnan Rich Gates in Jiangsu and Shenyang Albany Oasis Garden in Liaoning. From January to December 2013, the Group's contracted sales amounted to HK$2.567 billion, with a total gross floor area of approximately 107,600 square meters.

Project Company	**Sales Contracts Signed** *(HK$'000)*	**Contractual Gross Area** *(m^2)*
Shanghai Cedar Villa Original	606,495	19,730
Shenyang Albany Oasis Garden	545,365	27,702
Shanghai Oasis Central Ring Centre	544,979	16,710
SRE Financial Centre	249,797	4,574
Jiaxing Project	170,403	12,956
Wahroonga Gardens	162,138	3,216
Haikou Bund Centre	89,305	4,480
Shanghai Rich Gates Seaview	69,490	5,007
Wuxi Jiangnan Rich Gates	60,030	3,533
Shanghai Lake Malaren Garden	31,681	941
Other Projects	36,871	8,735
Total	2,566,554	107,584

In 2013, the Group recorded a net turnover of HK$3.344 billion (2012: HK$3.343 billion). Gross profit for 2013 amounted to approximately HK$0.956 billion (2012: HK$0.9 billion). Gross profit margin for 2013 was about 28.6% (2012: 26.9%).

Net turnover breakdown by activity

Turnover	**2013** *(HK$'000)*	2012 ***(HK$'000)***
Sale of development properties	**3,057,046**	3,048,113
Hotel operations	**195,092**	194,748
Revenue from property leasing	**96,596**	143,221
Property management revenue	**154,210**	144,110
Revenue from construction of infrastructure for an intelligent network	**35,262**	2,331
Other revenue	**14,801**	17,834
Less: Business tax and surcharges	**(208,729)**	(207,341)
Total revenue	**3,344,278**	3,343,016

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; 香島莊園 and 碧水瀾灣 in Jiaxing Zhejiang; and Haikou Bund Centre in Hainan .

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 2013, with 6,202 households relocated, households relocation was about 98% completed. All economic enterprises had been relocated. For Phase III alone, 100% 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 2013, with 374 households, 9 enterprises and 14 sole proprietors relocated, relocation was 99% completed. This created favorable conditions for Phase II development of the project.

Shenyang Albany Oasis Garden

As at the end of December 2013, with 1,374 households (area: 88,672m^2) and 13 enterprises (area: 3,062m^2) relocated, relocation was 82% completed, which created favorable conditions for Phase II development.

Construction Work

Adhering to the development plans and construction timelines formulated in early 2013, 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.

Oasis Central Ring Centre

Construction of Office Block 6 of the Oasis Central Ring Centre was completed in June 2013 and titles could be transferred to buyers in July after the completion of all the required procedures. By the end of December 2013, titles for 290 units have been transferred.

Shanghai Albany Oasis Garden

Construction of Phase III was commenced in April 2013. By the end of December 2013, foundation works have finished and the superstructure for block 1 and block 2 was being built, with the first 10 floors having been constructed.

Jiaxing Project

Construction of 香島莊園, which is on Parcel 5 of Jiaxing Project, and 碧水瀾灣 Phase I, which is on Parcel 1, was completed in November 2013. The first batch of houses comprising 79 units have been handed over to buyers in December 2013.

Shenyang Yosemite Oasis Community

The East Parcel of Shenyang Yosemite Oasis Community consists of 502 houses. For the 200 houses located at Jinling Section, construction was completed and titles have been transferred to buyers in June 2013. For the 302 units located at Shuangxing Section, the main structures have been topped out. It is expected that these houses will be available for hand over in September 2014.

Shenyang Albany Oasis Garden

The construction of the first 4 blocks of Shenyang Albany Oasis Garden Phase II was commenced in 2013. By the end of December 2013, Block 1, 2 and 4 had been topped out, and as for Block 3, concrete pouring for the basement was underway while the construction of the carparks surrounding Block 3 was being undertaken on a parallel basis.

Haikou Bund Centre

For the Westin Hotel, installation and tests of all indoor facilities and equipment, and the decoration of hotel rooms have all been completed. The hotel is now being finally inspected and things will be perfected if and when required. It is expected that operations of the hotel will commence in the first half of 2014. For Phase II development, in order to ensure that the project will tie in more closely with the demand, the project planning and design is again being reviewed and perfected. After it being cross-examined for ensuring that it will meet with the mainstream demand of the public, construction will commence.

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	96,146 m^2
Shanghai Shuocheng Supermarket	Zhabei District, Shanghai	Approx. 24,000 m^2
Shenyang Rich Gate Shopping Mall	Financial Golden Corridor, Shenyang	245,252 m^2

Major Financing Activities

In April 2013, Shanghai Shuo Cheng Real Estate Ltd. entered into a loan agreement for a RMB3.6 billion loan facility with Shanghai Pudong Development Bank, China Everbright Bank and Beijing Bank.

In November 2013, Liaoning High School Support Group Property Development Co. Ltd. entered into a loan agreement for a loan facility of RMB450 million with the Bank of Communications.

In December 2013, Shanghai Skyway Hotel Co. Ltd. entered into a loan agreement for a loan facility of RMB1.6 billion for the refinancing of a then existing loan of RMB1.3 billion with Industrial and Commercial Bank of China and Agricultural Bank of China.

In 2013, Shanghai Jinwu Real Estate Co., Ltd,. Jiaxing Hupan Rich Gate Real Estate Co., Ltd., Shenyang Lukang Real Estate Ltd., Shanghai Real Estate Property Management Co., Ltd. and Shanghai Jinxin Real Estate Co., Ltd. entered into respective agreements with the corresponding trust companies for loan facilities amounting to an aggregate sum of approximately RMB2.38 billion. This to a large extent supplements fundings available for development projects of the Group.

Chairman's Statement

Major Acquisition

In February 2013, Sinopower Investment Limited, a wholly-owned subsidiary of the Company, acquired 100% of the equity interest in Gao Feng Limited, thereby indirectly acquired 40% interest in Shenyang Huarui Shiji Asset Management Co., Ltd.. The Company now indirectly holds 100% interest in Shenyang Huarui Shiji Asset Management Co., Ltd..

The Group's Awards

1. Shanghai Shuo Cheng Real Estate Ltd. was awarded "Four Star Credible Enterprise" in Shanghai.

2. Office Block 6 of the Oasis Central Ring Center passed the audit and inspection to qualify as a "High Quality Structure" and as an awardee for the "Shanghai White Orchid Award".

3. Shanghai Real Estate Property Management. Co., Ltd. was awarded a "PRC Top 10 Credible Property Management Enterprise in 2013" and elected as one of the PRC Top 200 Property Management Enterprises.

4. Liaoning High School Support Group Property Development Co., Ltd. was certified compliance for ISO9001 for its quality management system, 14001 for its environmental management system and 28001 for its property health and safety management system and was ranked as a Class 2 national property developer after the satisfactory review by the provincial construction evaluation board.

Business Outlook

In 2013, the keynote of the State's real estate policy was to "allow flexibility on micro aspects while maintain stability on macro basis". While the general control policy applied to all regions in PRC, there was divergence when the policy was implemented in different cities. The introduction of "Five Regulations" and the subsequent detailed rules promulgated by the local governments at the beginning of the year reaffirmed the importance of control measures and signified the clear directions about what to be preserved and what to be suppressed. During the second half of the year, the new administration concentrated on establishing an effective and durable mechanism to ensure that macro economic policies remain stable and are consistent. The Third Plenary Session of 18th CPC Central Committee clearly stated that the focus of the government was to deepen reforms on the basis of "ensuring stable growth, adjusting the structure and expediting reforms". Under the environment of steady and healthy monetary policies, the government would restructure the resources allocation system and advance social and economic development by making use of the dynamics of the market economy. In 2014, the core of economic works is to make progress while maintaining stability and steadiness instead of striving for high growth rates. Emphasis will be placed on both a balanced growth and reform, and optimization of the structure is the pivot. As for the monetary policies, the Central Bank will continue to maintain stable monetary policies. In the short-term, credit and social financing will continue to grow steadily. As financial reforms such as marketization of interest rate and foreign exchange system reform will be steadily implemented, in the medium to long term, the overall credit environment will not be as lenient. In respect of real estate control measures, given the increasingly diversified market performance in different regions, the direction of macro control measures will vary. With further differentiation in the performance of regional markets, control policies for each of the regions shall be tailor made to contain speculation and investment demands, help promote a steady and healthy growth of the property market, raise the proportion of affordable housing in major cities and greatly accelerate the transformation of shanty houses and renewal of urban-villages. This implies that shanty area rebuilding projects and transformation projects in tier 1, 2 and 3 cities will be the major battle-field in the coming years. With the stable progress in land, public finance and taxation reform and the enhancement of the property supply system, a control mechanism pivoting on market principles has been gradually built up and the environment of the real estate industry in the medium to long term will hence become clearer. All these will facilitate a healthy and rational development of the economy and the real estate industry.

According to the Statistical Communique on the 2013 National Economic and Social Development published by the China National Statistics Bureau, total investment in real estate development in 2013 amounted to RMB8.6013 trillion, an increase of 19.8% over the previous year. Of which, investment in residential buildings accounted for RMB5.8951 trillion, an increase of 19.4%; investment in office buildings accounted for RMB465.2 billion, an increase of 38.2%; investment in commercial properties accounted for RMB1.1945 trillion, an increase of 28.3%.

In 2013, the investment in real estate development in Shanghai amounted to RMB281.959 billion, representing a year-on-year increase of 18.4%. A total area of 23.822 million m^2 of commodity properties were sold throughout the year, representing an increase of 25.5%, of which total area of commodity housing amounted to 20.1581 million m^2, representing an increase of 26.6%. Sales of commodity properties amounted to RMB391.157 billion, representing an increase of 46.5%, of which sales of commodity housing amounted to RMB326.403 billion, representing an increase of 47.8%.

In 2014, it is expected that the PRC property market will experience certain changes, which represent both challenges and opportunities for real estate enterprises. In the coming year, the Group will adopt an innovative development strategy under the central government's direction of "the foundation of market economy being a decisive factor" and "a mixed ownership economy", and will undergo transformation with a clear vision of the market trend in mind so as to ride on market tendencies. The Company will instil such concepts into our staff, arrange organizational reform and staff deployment, and will systematize our development and business activities. We will, through promoting the awareness and consciousness of all staff about our missions and strategies, enhance our abilities in execution, and, through toughening our disciplinary rules, ensure that our missions and strategies will be implemented. In 2014, the Group's development strategies will focus on three aspects: 1. Innovative development in traditional real estate business; 2. Development in the new life style inspired by the breakthrough in Internet economy; and 3. Development modelled on private equity funds. Traditional real estate business makes profits from land price differentials while future real estate business relies on customers' loyalty and financial strength. It is vital for the Group to consider how to further capture the residual value of the customers in the booming internet age. In 2014, under our decision to expedite "shanty area transformation", the Group will aggressively advance the progress of shanty area transformation projects including the Jingxin Project in the heart of Huangpu District, Shanghai, the Albany Project in Shenyang and the project in Haikou in order to grasp opportunities and overcome challenges. In tier 1 cities, in sight of the scarcity of available land, we will set great store by land resources and will use our ultimate endeavors to "develop" land, while in the tier 2 and 3 cities, we will continue to scale up our expansion since only developments of large scale projects will survive market competition, win admiration and support from the financial sector and make sustainable profit. Against these considerations, the Group will take advantages of the industrial development trends, improve its resources allocation amongst various regional markets and its operational risk management, maintain a reasonable pace for its investments and actively optimize its product structure and marketing strategies so as to attain a stable development.

Shi Jian
Chairman

28 March 2014

Directors and Management

Directors

Executive Directors

Mr. Shi Jian, aged 60, is the Chairman of the Board, chairman of the Nomination Committee as well as the founder of the Group. Mr. Shi has resigned as the Chairman of the Board on 10 June 2013 and subsequently designated as the Chairman of the Board on 29 August 2013. 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 the founder, an Executive Director and concurrently a Vice Chairman of the board of directors of China New Town Development Company Limited ("CNTD"), a company listed on the Singapore and Hong Kong Stock Exchange (Singapore stock code: D4N.si and Hong Kong stock code: 1278). Mr. Shi Jian is the spouse of Md. Si Xiao Dong, the Director of various companies of our Group, and the uncle of Mr. Shi Lizhou, an Executive Director of the Company. 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 63, resigned as an Executive Director of the Board on 1 April 2013 and was subsequently re-appointed as an Executive Director and a Co-Chairman of the Board on 29 August 2013. Mr. Li was one of the founders of the Group, he joined the Group in May 1993 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 is a Non-Executive Director and a Vice Chairman of the Board of directors of CNTD. He also sits on the boards of various companies within our Group.

Mr. Yu Hai Sheng, aged 59, is a Co-Chairman of the Board and an Executive Director of the Group. Mr. Yu has been appointed as the Chairman of the Board on 10 June 2013 and was subsequently re-designated as the Co-Chairman of the Board on 29 August 2013. 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. Jiang Xu Dong, aged 49, is a Vice-Chairman of the Board and Chief Executive Officer of the Group. He is also an Executive Director of the Group since 2003. Mr. Jiang graduated from Shanghai Tongji University in 1986 specializing in industrial and civil construction and was awarded a master degree in business administration afterwards. Prior to joining the Group in 1997, Mr. Jiang was a department director of Shanghai Real Estate Administration Bureau between 1986 and 1997. Mr. Jiang has over 20 years of experience in property development and operation management. He had been the Chief Operation Officer of the Group from 2007 to June 2013, who was responsible for the property development of the project companies of the Group. He is also the chairman of the board of Shanghai Oasis Garden Real Estate Co., Ltd., a subsidiary of the Company.

Mr. Wang Zi Xiong, aged 59, was appointed as an Executive Director and a Vice Chairman of the Board on 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 26 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.

Mr. Zhang Hongfei, aged 37, 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 Lizhou, aged 31, 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. 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.

Non-executive Directors

Mr. Cheung Wing Yui, aged 64, 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 65, 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 71, 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 62, 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. He has also appointed as a member of the investment committee on 22 November 2013. Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983 and obtained a master degree in Economics from Fudan University in 1997. Mr. Zhuo served senior positions such as the assistant officer and the head of the administrative office of the Shanghai Economic System Reform Committee. Subsequently, 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. Mr. Zhuo is devoted to private equity investment since 2002, he 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. Mr. Zhuo co-founded SIG Capital Limited. Since 2008, Mr. Zhuo has been a partner of GGV Capital. Mr. Zhuo was previously a non-executive director of Grandhope Biotech Co. Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300238) and an independent non-executive director of Focus Media Holding Limited, a company listed on NASDAQ (former stock code: FMCN, currently privatized). Currently, Mr. Zhuo is a non-executive director of Daqo New Energy Corp., a company listed on the New York Stock Exchange (stock code: DQ) and a 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 Shenyin Wanguo (H.K.) Limited, a company listed on the HKEx (stock code: 218) and an independent non-executive director of China Enterprise Company Limited, a company listed on the Shanghai Stock Exchange (stock code: 600675).

Mr. Yuan Pu, aged 63, 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 60, 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. He was also appointed as a member of the investment committee on 22 November 2013. 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.

Mr. Yang Chao, aged 64, a Senior Economist, has been appointed as an independent non-executive director of the Company and the chairman of the investment committee since 22 November 2013. Mr. Yang graduated from Shanghai International Studies University and Middlesex University in the United Kingdom, majoring in English and Business Administration, and obtained a Master's degree in Business Administration. Mr. Yang has more than 30 years of experience in the insurance and banking industries, and was awarded special allowance by the State Council. From 2011, Mr. Yang served as Managing Director of China World Trade Center Company Limited and China Shimao Investment Company Limited, and member of National Committee of the 11th and 12th Chinese People's Political Consultative Conference. Mr. Yang became the Chairman of the China Life Insurance Company Limited from July 2005 to June 2011, the President and secretary of party committee of China Life Insurance (Group) Company in May 2005 and the Chairman of China Life Property and Casualty Insurance Company Limited in December 2006. Between 2000 and 2005, Mr. Yang was the Chairman and General Manager of both China Insurance (Holdings) Company Limited and China Insurance H.K. (Holding) Company Limited.

Senior Management

Mr. Ma Dayu, aged 52, is the President of the Company and is a chief engineer. He currently acts as the chairman and the general manager of the Shanghai Shangzhi Real Estate Development Co., Ltd., a subsidiary of the Company. Mr. Ma graduated from the Shanghai Tongji University in 1983 specializing in architecture, and was awarded a MBA degree from the Princeton University in 2005. He obtained a certificate of Senior Engineer qualification specializing in real estate from Shanghai Housing & Land Administration Bureau in 1998. Mr. Ma had been working as an architect in Shanghai Metallurgical Design Institute, responsible for the project design. He was also the manager of engineering department and the general manager in Shanghai Jinqiao Export Processing Zone Development Co., LTD. and Shanghai Dongzhan Real Estate Development Co., Ltd. respectively. He joined the Company in June 1999 and was a member of the senior management of various subsidiaries of SRE principally responsible for project development and construction work.

Management Discussion and Analysis

Financial Review

Turnover and profit attributable to shareholders

In 2013, the Group recorded net revenue from continuing operation of approximately HK$3,344 million (2012: HK$3,343 million), which was primarily same as the level of 2012. Profit attributable to owners of the parent was approximately HK$200 million, a decrease of 46% compared with approximately HK$367 million in 2012. The decline was mainly due to the decrease in other gains and the increase in income tax expense.

Financial Resources and Liquidity

As at 31 December 2013, cash and bank balances amounted to approximately HK$2,941 million (2012: HK$2,032 million). Working capital (net current assets) of the Group as at 31 December 2013 amounted to approximately HK$13,791 million (2012: HK$11,067 million), an increase of 25% from previous year, and current ratio rised to 2.34x (2012: 2.00x).

As at 31 December 2013, total liabilities to total equity increased to 2.35x (2012: 2.01x). At the end of the financial period, the Group's gearing ratio was approximately 57% (2012: 50%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balance of approximately HK$2,941 million) over total capital (total equity and net borrowings).

Material Acquisitions

In February 2013, Sinopower Investment Limited, a wholly-owned subsidiary of the Company, acquired 100% of the equity interest in Gao Feng Limited, thereby indirectly acquired 40% interest in Shenyang Huarui Shiji Asset Management Co., Ltd.. The Company now indirectly holds 100% interest in Shenyang Huarui Shiji Asset Management Co., Ltd..

Employees

As at 31 December 2013, the Group had retained 2,184 (2012: 2,470) 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$152 million (2012: HK$159 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.

Charges on Assets and Contingent Liabilities

At the the end of the financial period, total bank and other borrowings of approximately HK$15,024 million (2012: HK$10,898 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 30 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 when the relevant mortgage loans and end when the purchasers pledge related properties certificates as security to the bank offering the mortgate loans. The Group entered into guarantee contracts of principal amounts totalling approximately RMB484 million (equivalent to HK$615 million) and these contracts were still effective as at the close of business on 31 December 2013.

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 principal of each of the mortgage loan is normally below 70% of sales prices of the respective property at date of the sales agreement, 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 Proportion of SRE
The Bund Center Haikou	No.18 Taihua Road, Longhua District, Haikou City, Hainan Province, The PRC	Hotel	45,458	2014	95%	79%
		Residential Phase II	213,473	2016	0%	79%
		Commercial Phase II	15,259	2016	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	Residential Phase III	159,500	2016	0%	100%
		Residential Phase IV	45,000	2018	0%	100%
		Commercials	40,000	2018	0%	100%
		Office & Hotel	100,500	2018	0%	100%
Oasis Central Ring Center	No. 1678, Jinshajiang Road, Putuo District, Shanghai, The PRC	Office	31,021	2013	100%	95.79%

Project	Location	Land Use	GFA (sqm)	Expected Date of Completion	Completion Rate of Construction	Holding Proportion of SRE
Shengyang Albany	South Heping Road, Heping District, Shenyang City, Liaoning Province, The PRC	Residential Phase IIA	87,972	2015	50%	97.50%
		Commercial Phase IIA	3,149	2013	100%	97.50%
		Residential Phase IIB	90,100	2016	0%	97.50%
		Commercial Phase IIB	3,003	2016	0%	97.50%
		Super Market Phase IIIA	23,830	2015	0%	97.50%
		Residential Phase IIIB	100,855	2017	0%	97.50%
		Commercial Phase IIIB	6,384	2017	0%	97.50%
		Residential Phase IIIC	101,970	2018	0%	97.50%
		Commercial Phase IIIC	3,620	2018	0%	97.50%
Jiang Nan Rich Gate Wuxi	Within Wuxi Hongshan New Town	Residential	50,544	2014	98%	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	26,719	2015	0%	50.36%
		Commercials	4,435	2015	0%	50.36%
		Facilities	623	2015	0%	50.36%
Rich Gate I (Qinhai Oasis Garden)	Daxing Road, Huangpu District, Shanghai, The PRC	Residential	75,757	2018	0%	100%
		Office	38,820	2018	0%	100%
		Commercial	15,000	2018	0%	100%
		Underground	77,000	2018	0%	100%
Shenyang Yosemite Oasis Community	the town of Lee Sang Lane, Dongling District, Shenyang City, Liaoning Province, The PRC	Town House Phase I (Jinling section)	64,774	2013	100%	98.95%
		Town House Phase I (Shuangxing section)	97,612	2014	65%	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 – 5#	95,987	2013	100%	98.96%
		Residential and Commercial – 1# Phase I	64,372	2013	100%	98.96%
		Residential and Commercial – 1# Phase II	73,144	2015	0%	98.96%

Project	Location	Land Use	GFA (sqm)	Expected Date of Completion	Completion Rate of Construction	Holding Proportion of SRE
Wuxi Yongqing	Within Wuxi Hongshan New Town	Residential	204,219	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	100%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shanghai, The PRC	Retail & Office	32,602	95.79%
Oasis Central Ring Center	No. 1678, Jinshajiang Road, Putuo District, Shanghai, The PRC	Retail	6,499	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 2013.

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 22 respectively to the financial statements.

Segmental Information

Details of the Group's turnover and profit by principal activity and geographical area for the year ended 31 December 2013 are set out in note 4 to the financial statements.

Results

Details of the Group's results for the year ended 31 December 2013 are set out in the consolidated statement of comprehensive income. No interim dividend was declared by the Board of Directors of the Company. The Board of Directors has resolved to recommend the payment of final dividend in respect of the year ended 31 December 2013 of HK1.06 cents in cash per share (2012: Nil).

Proposed Final Dividend

The Board recommended a final dividend for the year ended 31 December 2013 of HK1.06 cents in cash per share (2012: Nil), approximately HK$60,046,000 in total, payable to shareholders whose names appear on the register of members of the Company on Monday, 9 June 2014. The recommended final dividend for the Year, which will be payable on or around Thursday, 10 July 2014, is subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 29 May 2014.

Bank Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 30 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 29 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$4.9 million (2012: HK$6.9 million). The share premium account with balance of approximately HK$5,434 million (2012: HK$5,434 million) may be distributed in the form of fully paid bonus shares.

Share Capital

Details of movements in the share capital of the Company are set out in note 28 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

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2013.

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 2013 are set out in note 41 to the financial statements.

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 and subsequently re-appointed on 29 August 2013)
Mr. Yu Hai Sheng
Mr. Jiang Xu Dong
Mr. Wang Zi Xiong (appointed on 1 April 2013)
Mr. Zhang Hongfei
Mr. Shi Lizhou

Non-executive Directors

Mr. Cheung Wing Yui
Mr. Jin Bing Rong

Independent Non-executive Directors

Mr. Jiang Xie Fu
Mr. Zhuo Fu Min
Mr. Yuan Pu
Mr. Chan, Charles Sheung Wai
Mr. Yang Chao (appointed on 22 November 2013)

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.

Report of the Directors

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Bye-laws of the Company, Mr. Jiang Xu Dong, Mr. Zhang Hongfei, Mr. Cheung Wing Yui, Mr. Yuan Pu, Mr. Li Yao Min and Mr. Yang Chao 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 22 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 remuneration of Mr. Shi Jian, Mr. Yu Hai Sheng and Mr. Jiang Xu Dong in 2013 Q1 was reduced by a lump sum of HK$125,000, HK$125,000 and HK$75,000 respectively. 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.

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 2013, 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 2013, 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:

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)*	2,913,536,628 *(Note 2)*	2,926,545,943	51.66%
Li Yao Min	5,172,324	–	–	5,172,324	0.09%
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 2,913,536,628 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 2,913,536,628 Shares.

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

Save as disclosed above, as at 31 December 2013, 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 2013, 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	2,926,545,943 (L) *(Note 2)*	51.66%
SRE Investment	Beneficial owner	2,913,536,628 (L)	51.43%

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 2,913,536,628 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.

Share Option Scheme

No share option of the Company was granted, exercised, cancelled or lapsed during 2013.

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 2013 and 2012. 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.

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 2013 has been reviewed by the Audit Committee.

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.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 5 June 2014 to Monday, 9 June 2014, both days inclusive, during which period no transfer of shares will be effected. In order to ascertain the right to receive the final dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (to be moved to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) not later than 4:30 p.m. on Wednesday, 4 June 2014.

Auditors

The financial statements for the years ended 31 December 2013 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, 28 March 2014

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 had 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 Provision E.1.2 which 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 and the Chairman of the Nomination Committee, did not attend the annual general meeting for the year 2013 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 2013.

Board of Directors

Throughout the year ended 31 December 2013, 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 2013, the Board consists of fourteen Directors, including seven executive Directors, namely, Mr. Shi Jian (Chairman), Mr. Li Yao Min, Mr. Yu Hai Sheng, Mr. Jiang Xu Dong, Mr. Wang Zi Xiong, Mr. Zhang Hongfei and Mr. Shi Lizhou; two non-executive Directors, namely, Mr. Cheung Wing Yui and Mr. Jin Bing Rong; and five independent non-executive Directors, namely, Mr. Jiang Xie Fu, Mr. Zhuo Fu Min, Mr. Yuan Pu, Mr. Chan, Charles Sheung Wai and Mr. Yang Chao.

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.

Chairman, Co-chairman, Vice-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. Li Yao Min and Mr. Yu Hai Sheng are the Co-chairmen of the Board and responsible for the duties in absence of the Chairman of the Board. In addition, Mr. Jiang Xu Dong and Mr. Wang Zi Xiong are the Vice Chairmen of the Board and responsible for assisting the Chairman and the Co-Chairmen of the Board in project management and performing specific duties as designated by them. Mr. Jiang Xu Dong is also the Chief Executive Officer ("CEO") of the Company and responsible for 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 14 members with 5 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.

After Mr. Li Yao Min's appointment as an executive director on 29 August 2013, the number of independent non-executive directors of the Company fell short of the requirement under Rule 3.10A of the Listing Rules that the independent non-executive directors of the Company shall represent at least one-third of the board. The Company subsequently appointed Mr. Yang Chao as an independent non-executive director and the chairman of the Investment Committee on 22 November 2013, and hence has since been complying with the Listing Rules.

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 policies 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.

Meetings

The Board meets at least four times a year at approximately quarterly intervals. During 2013, 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 and the Annual General Meeting ("AGM") for the Financial Year are set out below:

	Attendance/ Number of Meetings (during director's tenure)					
	Board	**Audit Committee**	**Investment Committee** *(Note 4)*	**Nomination Committee**	**Remuneration Committee**	**AGM**
Executive Director						
Shi Jian	4/5			2/2		0/1
Li Yao Min *(Note 1)*	3/3					1/1
Yu Hai Sheng	5/5					1/1
Jiang Xu Dong	5/5					1/1
Wang Zi Xiong *(Note 2)*	4/4					1/1
Zhang Hongfei	5/5					1/1
Shi Lizhou	5/5					1/1
Non-executive Director						
Cheung Wing Yui	5/5	3/3			2/2	1/1
Jin Bing Rong	5/5	3/3				1/1
Independent non-executive Director						
Jiang Xie Fu	5/5	3/3				1/1
Zhuo Fu Min	5/5	3/3	0/0	2/2	2/2	1/1
Yuan Pu	4/5			2/2		1/1
Chan, Charles Sheung Wai	5/5	3/3	0/0		2/2	1/1
Yang Chao (Note 3)	0/0		0/0			0/0

Note:

1. Mr. Li Yao Min resigned as an Executive Director on 1 April 2013 and was subsequently re-appointed as an Executive Director and the Co-Chairman of the Board on 29 August 2013.
2. Mr. Wang Zi Xiong was appointed as an Executive Director and the Vice Chairman of the Board on 1 April 2013.
3. Mr. Yang Chao was appionted as an INED and the Chairman of the Investment Committee on 22 November 2013.
4. The Investment Committee was set up on 22 November 2013 and it did not convene any meeting in 2013.

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 4 committees, namely Audit Committee, Investment Committee, Nomination Committee and Remuneration Committee, with the Investment Committee being set up on 22 November 2013. 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 have 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.

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

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

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;

- 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 2013, the AC held three meetings to among other things review the interim and annual results of the Group. 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 38 under the section of "Meetings".

The AC had met EY three times 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.

Investment Committee

The Company has established an investment committee ("IC") on 22 November 2013. The chairman and members of the IC during the Financial Year were as follows:

Independent Non-executive Directors
Mr. Yang Chao – Chairman
Mr. Zhuo Fu Min – Member
Mr. Chan, Charles Sheung Wai – Member

The IC performs the following main functions:

- review the management's recommended investment opportunities, objectives, strategies, policies and guidelines that direct the investment of the portfolio;

- review the management's recommended portfolio financial goals and requirements, including asset allocation, risk tolerance, investment time horizon and capital adequacy;

- review and evaluate the performance of the investment portfolio regularly to assure adherence to policy guidelines and monitor progress toward achieving investment objectives; and

- review the shares purchase, redemption or other share acquisition activities to be conducted by 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;

- to determine the policy for nomination of directors; and

- to review the Board Diversity Policy on a regular basis and recommend revisions, if any, to the Board for consideration and approval.

In 2013, the NC held two meetings. 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 Company has also 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 Board, in the Board meeting held on 29 August 2013, has reviewed and adopted the Board diversity policy ("Board Diversity Policy") to assess the Board composition. The NC would take into account various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The NC would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. In identifying and selecting suitable candidates for directorships, the NC would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The attendance record of each committee member is shown on page 38 under the Section of "Meetings".

Appointment, Re-election and Removal of Directors

The NC assessed the skills, knowledge and experience of Mr. Yang Chao, INED appointed during the Financial Year and unanimously recommended to the Board for his appointment as INED. Mr. Yang did not participate in deliberation on his own appointment.

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 to the Board for consideration and appointment. Any Director appointed by the Board shall hold office only until, and shall retire on, the next following annual general meeting of the Company. The Bye-laws of the Company provides that at each AGM of the Company, 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) shall retire from office by rotation. If the Directors obliged to retire plus the Directors wishing to retire and not offering themselves for re-election account for less than one-third, those who have been longest in office since their last re-election or appointment shall retire to make up for the shortfall. 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.

Mr. Jiang Xu Dong, Mr. Zhang Hongfei, Mr. Cheung Wing Yui and Mr. Yuan Pu will be retiring by rotation pursuant to the bye-law 87 of Bye-laws and Mr. Li Yao Min and Mr. Yang Chao 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.

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
Mr. Zhuo Fu Min – Member

Non-executive Director
Mr. Cheung Wing Yui – Member

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 2013, the RC held two meetings to review and recommend the remuneration of the Executive Directors and fees payable to INEDS, and 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. No director should involve in deciding his/her own remuneration. The attendance record of each committee member is shown on page 38 under the section "Meetings".

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.

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 and Industry Updates**	**Director' Roles, Functions and Duties**
Executive Director			
Shi Jian	✓	✓	
Li Yao Min (resigned on 1 April 2013, but re-appointed on 29 August 2013)	✓	✓	
Yu Hai Sheng	✓	✓	
Jiang Xu Dong	✓	✓	
Wang Zi Xiong (appointed on 1 April 2013)	✓	✓	✓
Zhang Hongfei	✓	✓	
Shi Lizhou	✓	✓	
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	✓		✓
Yang Chao (appointed on 22 November 2013)	✓		✓

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.

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 RMB4,080 thousand (equivalent to HK$5,113 thousand) for audit services and RMB260 thousand (equivalent to HK$326 thousand) for non-audit services relating to exercise of call option and acquisition of an indirect 40% interest in Shenyang Huarui Shiji Asset Management Co., Ltd..

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 do so in the same matter.

Corporate Information

Board of Directors

Shi Jian *(Chairman)*
Li Yao Min *(Co-Chairman)*
Yu Hai Sheng *(Co-Chairman)*
Jiang Xu Dong *(Vice-Chairman & Chief Executive Officer)*
Wang Zi Xiong *(Vice-Chairman & Chief Financial Officer)*
Zhang Hongfei
Shi Lizhou
Cheung Wing Yui*
Jin Bing Rong *
Jiang Xie Fu**
Zhuo Fu Min**
Yuan Pu**
Chan, Charles Sheung Wai**
Yang Chao**

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

Authorized Representatives

Shi Jian
Yu Hai Sheng

Company Secretary

Hui Sze Wai, Sylvie

Legal Adviser

Woo, Kwan, Lee & Lo

Auditor

Ernst & Young

Principal Bankers

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

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong Office

Suite 4006, 40/F, Central Plaza
18 Harbour Road, Wanchai, Hong Kong.

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
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 144, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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.

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 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong
28 March 2014

Consolidated Statement of Profit or Loss and other Comprehensive Income

Year ended 31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

	Notes	2013	2012
CONTINUING OPERATIONS			
Revenue	5	**3,344,278**	3,343,016
Cost of sales	7	**(2,387,850)**	(2,442,884)
Gross profit		**956,428**	900,132
Other gains – net	6	**148,395**	271,675
Selling and marketing expenses	7	**(78,397)**	(79,238)
Administrative expenses	7	**(266,871)**	(236,120)
Operating profit		**759,555**	856,449
Finance income	8	**87,455**	35,779
Finance costs	9	**(352,117)**	(298,677)
Finance costs – net		**(264,662)**	(262,898)
Share of profits of associates		**4,846**	7,084
Profit before tax from continuing operations		**499,739**	600,635
Income tax expense	12	**(294,609)**	(188,231)
Profit for the year from continuing operations		**205,130**	412,404
DISCONTINUED OPERATION			
Loss for the year from discontinued operation	14	**–**	(104,634)
Profit for the year		**205,130**	307,770
Other comprehensive income			
Item not to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements into presentation currency		**295,109**	(35,184)
Other comprehensive income for the year, net of tax		**295,109**	(35,184)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**500,239**	272,586

Consolidated Statement of Profit or Loss and other Comprehensive Income

Year ended 31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

	Notes	**2013**	2012
Profit attributable to:			
Owners of the parent		**200,171**	367,307
Non-controlling interests		**4,959**	(59,537)
		205,130	307,770
Total comprehensive income attributable to:			
Owners of the parent	13	**480,798**	349,018
Non-controlling interests		**19,441**	(76,432)
		500,239	272,586
Earnings per share attributable to ordinary equity holders of the parent	16		
Basic			
– For profit for the year		**HK3.53 cents**	HK6.85 cents
– For profit from continuing operations		**HK3.53 cents**	HK8.07 cents
Diluted			
– For profit for the year		**HK3.53 cents**	HK6.85 cents
– For profit from continuing operations		**HK3.53 cents**	HK8.07 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 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

	Notes	Group 2013	Group 2012	Company 2013	Company 2012
ASSETS					
Non-current assets					
Property, plant and equipment	17	1,343,584	814,927	829	1,472
Investment properties	18	5,214,575	4,792,658	–	–
Prepaid land lease payments	19	137,806	141,391	–	–
Goodwill	20	651,308	648,399	–	–
Investments in subsidiaries	21(a)	–	–	5,127,579	4,971,393
Advances to subsidiaries	21(b)	–	–	1,372,791	1,337,422
Investments in associates	22	75,939	76,533	–	–
Derivative financial asset	34	–	74,608	–	–
Deferred tax assets	32	510,324	533,616	–	–
Non-current prepayment	24	6,360	192,000	–	–
		7,939,896	7,274,132	6,501,199	6,310,287
Current assets					
Prepaid land lease payments	19	11,300,584	11,260,559	–	–
Properties held or under development for sale	23	7,991,138	6,932,167	–	–
Inventories		12,076	11,487	–	–
Dividends receivable from subsidiaries		–	–	2,482,348	2,295,550
Prepayments and other current assets	24	1,145,340	175,462	2,881	4,355
Other receivables	25	503,816	1,409,084	–	–
Trade receivables	26	35,503	31,121	–	–
Prepaid income tax		170,740	229,074	–	–
Cash and bank balances	27	2,941,096	2,032,007	56,698	20,724
		24,100,293	22,080,961	2,541,927	2,320,629
Total assets		32,040,189	29,355,093	9,043,126	8,630,916

Statements of Financial Position

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

	Notes	Group 2013	Group 2012	Company 2013	Company 2012
EQUITY AND LIABILITIES					
Equity					
Issued capital and premium	28	**6,000,738**	6,000,738	**6,000,738**	6,000,738
Other reserves	29	**1,714,864**	1,695,316	**1,436,744**	1,209,151
Retained profits	29	**1,454,952**	1,361,940	**4,900**	6,861
Proposed final dividend	15	**60,046**	–	**60,046**	–
Equity attributable to owners of the parent		**9,230,600**	9,057,994	**7,502,428**	7,216,750
Non-controlling interests		**322,755**	704,340	**–**	–
Total equity		**9,553,355**	9,762,334	**7,502,428**	7,216,750
LIABILITIES					
Non-current liabilities					
Interest-bearing bank and other borrowings	30	**10,233,940**	6,670,834	**326,048**	188,475
Convertible bonds – host debts	33	**–**	7,183	**–**	7,183
Deferred tax liabilities	32	**1,943,823**	1,900,302	**–**	–
		12,177,763	8,578,319	**326,048**	195,658
Current liabilities					
Interest-bearing bank and other borrowings	30	**5,322,462**	4,403,928	**1,193,986**	649,960
Convertible bonds – host debts	33	**8,332**	–	**8,332**	–
Advances received from the pre-sale of properties under development	35	**1,177,218**	1,495,886	**–**	–
Trade payables	36	**1,804,043**	2,064,672	**–**	–
Other payables and accruals	37	**421,021**	871,367	**12,332**	7,009
Current income tax liabilities		**1,575,995**	1,617,048	**–**	–
Guaranteed senior notes	31	**–**	561,539	**–**	561,539
		10,309,071	11,014,440	**1,214,650**	1,218,508
Total liabilities		**22,486,834**	19,592,759	**1,540,698**	1,414,166
Total equity and liabilities		**32,040,189**	29,355,093	**9,043,126**	8,630,916
Net current assets		**13,791,222**	11,066,521	**1,327,277**	1,102,121
Total assets less current liabilities		**21,731,118**	18,340,653	**7,828,476**	7,412,408

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

Shi Jian
Chairman

Wang Zi Xiong
Vice-Chairman and Chief Financial Officer

Consolidated Statement of Changes in Equity

Year ended 31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

	Attributable to owners of the parent										
	Issued capital and premium (Note 28)	Asset revaluation reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Equity component of convertible bonds	Retained profits	Proposed final dividend	Total	Non-controlling interests	Total equity
At 1 January 2013	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
Total comprehensive income for the year	–	–	–	280,627	–	–	200,171	–	480,798	19,441	500,239
Appropriation from retained profits	–	–	47,113	–	–	–	(47,113)	–	–	–	–
Acquisition of a non-controlling interest	–	–	–	–	(308,192)	–	–	–	(308,192)	(417,321)	(725,513)
Capital contribution from non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	18,844	18,844
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(2,549)	(2,549)
Proposed final 2013 dividend (Note 15)	–	–	–	–	–	–	(60,046)	60,046	–	–	–
At 31 December 2013	6,000,738	1,211*	367,249*	1,740,855*	(397,261)*	2,810*	1,454,952	60,046	9,230,600	322,755	9,553,355

Consolidated Statement of Changes in Equity

Year ended 31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

	Attributable to owners of the parent										
	Issued capital and premium (Note 28)	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 issue	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	–	–	–	–	–	–	–	–	–	(24,646)	(24,646)
Change due to decrease in equity interests in CNTD	–	–	–	–	–	(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 33)	–	–	–	–	–	–	(7,170)	–	(7,170)	–	(7,170)
Transfer upon partial redemption of CB4 (Note 33)	–	–	–	–	–	169,381	(169,381)	–	–	–	–
Dividends attributed to non-controlling interests	–	–	–	–	–	–	–	–	–	(27,584)	(27,584)
Transfer upon the expiration of the share option scheme (Note 28)	–	–	(248)	–	–	248	–	–	–	–	–
Capital contribution by Parent	–	–	–	–	–	168,741	–	–	168,741	–	168,741
Disposal of CNTD via a distribution in species (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

* These reserve accounts comprise the consolidated reserves of HK$1,714,864 thousand (2012: HK$1,695,316 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 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	38	**(1,456,647)**	(1,108,032)
Interest paid		**(1,134,226)**	(1,052,068)
Income tax paid		**(303,259)**	(278,641)
Net cash flows used in operating activities		**(2,894,132)**	(2,438,741)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(281,593)**	(158,924)
Proceeds from disposal of property, plant and equipment		**844**	2,038
Payments for investment properties		**(5,964)**	(13,729)
Acquisition of a subsidiary, net of cash acquired		**–**	(24,040)
Investments in joint ventures		**–**	(23,965)
Disposal of subsidiaries		**369,285**	31,947
Settlement of receivables in connection with acquisition of Konmen Investment Limited		**532,622**	–
Earnest money paid to a third party for acquisition of a company		**(6,360)**	–
(Increase)/decrease in time deposits with original maturity of over three months		**(78)**	2,468
Dividends received from associates		**7,800**	7,642
Interest received		**44,390**	32,552
Net cash flows from/(used in) investing activities		**660,946**	(144,011)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of rights issue		**–**	209,024
Proceeds from placing of new shares of CNTD		**–**	202,463
Payments for the redemption of CB4		**–**	(540,617)
Payments for the redemption of Guaranteed Senior Notes		**(561,574)**	–
Payments for acquisition of an equity interest of a subsidiary from a non-controlling shareholder		**(458,000)**	–
(Increase)/decrease in pledged bank deposits		**(776,286)**	141,360
(Increase)/decrease in restricted deposits in relation to bank borrowings		**(4,507)**	9,324
Proceeds from short-term borrowings		**978,945**	492,046
Repayments of short-term borrowings		**(500,063)**	(403,256)
Proceeds from long-term borrowings		**11,005,519**	5,358,222
Repayments of long-term borrowings		**(7,380,916)**	(2,738,640)
Cash received from the capital injection from non-controlling shareholders of subsidiaries		**18,844**	2,458
Decrease in cash and bank balances upon disposal of CNTD via a distribution in species	14	**–**	(250,669)
Dividends paid to non-controlling shareholders of a subsidiary		**(243)**	–
Net cash flows from financing activities		**2,321,719**	2,481,715
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**88,533**	(101,037)
Cash and cash equivalents at beginning of year		**1,253,004**	1,355,995
Effect of foreign exchange rate changes, net		**40,683**	(1,954)
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**1,382,220**	1,253,004

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

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 Suite 4006, 40/F, Central Plaza, 18 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 2013, the Company's parent company is SRE Investment Holding Limited (the "SREI"), which holds 51.43% of the Company's shares (55.23% as at 31 December 2012). The remaining 48.57% of the shares are held by various different shareholders.

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 investment properties 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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interest, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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 Group has adopted the following new and revised or amended HKFRSs 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 – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

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

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

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 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7and HKAS 39* [4]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]

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

2 Effective for annual periods beginning on or after 1 July 2014

3 Effective for annual periods beginning on or after 1 January 2016

4 No mandatory effective date yet determined but is available for adoption

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

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 as 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.

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

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss and other 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures

An associate is an entity, 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the joint venture. Joint control, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and 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 other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or 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*.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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 of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 of disposal, 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 profit or loss and other 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 the statement of profit or loss and other comprehensive income 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(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 profit or loss and other 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.

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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 the statement of profit or loss and other comprehensive income 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 are stated at cost less any impairment losses, and are 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 profit or loss and other 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 profit or loss and other 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 the statement of profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a 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 profit or loss and other comprehensive income.

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 profit or loss and other 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 the statement of profit or loss and other comprehensive income 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 are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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

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 profit or loss and other 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 as 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.

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 as 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 profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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 profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income 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 as 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 profit or loss and other 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 profit or loss and other comprehensive income in other gains or losses. 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 the statement of profit or loss and other comprehensive income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

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.

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, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

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 profit or loss and other 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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually 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.

The amount of any impairment loss identified 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).

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 profit or loss and other 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 profit or loss and other 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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 profit or loss and other comprehensive income, is removed from other comprehensive income and recognised in profit or loss.

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. “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 profit or loss and other 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 are classified, at initial recognition, 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.

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 profit or loss and other 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 profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (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 profit or loss and other comprehensive income. The net fair value gain or loss recognised in the statement of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as 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

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. 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 this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. 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 profit or loss and other 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 profit or loss and other comprehensive income.

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.

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 profit or loss and other comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

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 portions 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss and other comprehensive income.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Property leasing under operating leases

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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 14), 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.

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 in employee benefit expense, 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 the statement of profit or loss and other comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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% (2012: 14% to 22%) of the standard salary announced by the government to the central pension scheme. The contributions are charged to the statement of profit or loss and other 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 profit or loss and other comprehensive income upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss and other 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 a 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 the 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. Since the Company is listed on the HKEx, the Hong Kong dollar ("HK$") is chosen as the presentation currency to present these financial statements.

(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 measured. 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

(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.

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 liabilities 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.

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 2013 was HK$651 million (2012: HK$648 million).

For details of goodwill, please see Note 20.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period during the years ended 31 December 2013 and 31 December 2012 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, the direct capitalisation method by assuming a stabilised economic income capitalised by a market yield rate and the direct comparison approach with 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 professionally 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 further details including the key assumptions used for fair value measurement and a sensitivity analysis in 2013, please see Note 18.

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 32 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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.

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 of disposal and the value in use, which involve the use of estimates.

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

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 of disposal and its value in use. The calculation of the fair value less costs of disposal 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. The performance of each segment is evaluated based on its operating profit or loss before tax and the methodology used for its calculation is same as that for 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 in 2012, 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 2012.

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

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows:

	2013				
	Property development	Property leasing	Hotel operations	Corporate and other operations	Total
Segment revenue					
Sales to external customers	2,897,110	88,094	184,073	175,001	3,344,278
Intersegment sales	–	–	–	457,470	457,470
	2,897,110	88,094	184,073	632,471	3,801,748
Reconciliation:					
Elimination of intersegment sales					(457,470)
Revenue from continuing operations					3,344,278
Segment profit/(loss)	586,838	202,425	20,963	(50,671)	759,555
Finance income					87,455
Finance costs					(352,117)
Finance costs – net					(264,662)
Share of profits and losses of associates					4,846
Profit before tax from continuing operations					499,739
Segment assets and liabilities					
Segment assets	24,447,240	5,221,938	1,475,883	819,189	31,964,250
Investments in associates					75,939
Total assets					32,040,189
Segment liabilities	17,180,296	2,243,786	670,930	2,391,822	22,486,834
Total liabilities	17,180,296	2,243,786	670,930	2,391,822	22,486,834
Other segment information:					
Depreciation and amortisation	11,332	299	39,818	1,734	53,183
Capital expenditure*	1,417	6,068	543,978	2,171	553,634
Fair value gain on investment properties, net	–	166,291	–	–	166,291
Impairment of goodwill	17,206	–	–	–	17,206
Reversal for impairment of receivables	817	–	–	–	817

* Capital expenditure consists of additions of property, plant and equipment (HK$547,670 thousand) and investment properties (HK$5,964 thousand).

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

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

	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 receivables	–	–	–	910	910

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

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) As of 31 December 2013, more than 95% (2012: 100%) of the sales from continuing operations to external customers of the Group are generated from Mainland China.

(b) Non-current assets

As of 31 December 2013, more than 99% (2012: more than 99%) of the Group's non-current assets (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 or 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 2013 and 2012.

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:

	2013	2012
Sale of development properties	**3,057,046**	3,048,113
Hotel operations	**195,092**	194,748
Revenue from property leasing (Note 18)	**96,596**	143,221
Property management revenue	**154,210**	144,110
Revenue from construction of infrastructure for an intelligent network	**35,262**	2,331
Other revenue	**14,801**	17,834
	3,553,007	3,550,357
Less: Business tax and surcharges	**(208,729)**	(207,341)
Total revenue	**3,344,278**	3,343,016

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.

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

6. OTHER GAINS – NET

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

	2013	2012
Fair value gain/(loss) on investment properties, net (Note 18)	166,291	(40,715)
Fair value gain on derivative instruments at fair value through profit or loss, net	–	20,524
(Loss)/gain on disposal of property, plant and equipment, net	(2,407)	1,106
Gain on disposal of a subsidiary	–	273,428
Impairment of goodwill (Note 20)	(17,206)	–
Reversal/(provision) of impairment of receivables	817	(910)
Donation	–	(74)
Gain on redemption of CB4 (Note 33)	–	7,170
Others	900	11,146
	148,395	271,675

7. EXPENSE BY NATURE

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

	2013	2012
Cost of inventories sold (excluding depreciation)	2,350,149	2,354,544
Depreciation of property, plant and equipment (Note 17)	48,732	100,837
Employee benefit expense (including directors' and chief executive's emoluments):		
– Wages and salaries	89,036	86,699
– Other social welfare	25,835	22,218
	114,871	108,917
Operating lease payments in respect of buildings	7,742	7,368
Auditors' remuneration	5,439	5,752
Commission for sale of properties	23,419	14,664
Advertising costs	40,290	47,257
Miscellaneous tax	43,348	41,644
Transportation fee	11,728	10,777
Office expenses	5,942	7,104
Exhibition fees	3,718	3,129
Water and electricity costs	6,485	5,007
Business entertainment expenses	8,915	7,997
Others	62,340	43,245
	2,733,118	2,758,242

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

8. FINANCE INCOME

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

	2013	2012
Interest income on bank deposits	58,190	34,589
Net foreign exchange gain	29,265	1,190
	87,455	35,779

9. FINANCE COSTS

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

	2013	2012
Interest expense:		
Interest on bank borrowings and other borrowings		
– wholly repayable within five years	971,141	465,154
Interest on bank borrowings and other borrowings		
– wholly repayable beyond five years	108,576	290,914
Interest on the guaranteed senior notes		
– wholly repayable within five years (Note 31)	16,274	50,911
Interest on CB4 – wholly repayable within five years (Note 33)	1,429	54,805
Adjustment to the carrying amount of CB4 due to shortened expected life		
– wholly repayable within five years (Note 33)	–	(1,795)
	1,097,420	859,989
Less: Interest capitalised	(745,303)	(561,312)
Finance costs	352,117	298,677

During the year ended 31 December 2013, the weighted average interest capitalisation rate was 9.41% (2012: 8.32%).

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

		2013	
Name of director and the chief executive	**Salaries**	**Fees**	**Total**
Executive directors			
– Mr. Yu Hai Sheng	2,558	–	2,558
– Mr. Jiang Xu Dong (Chief executive)	2,367	–	2,367
– Mr. Wang Zi Xiong (appointed in 2013)	1,902	–	1,902
– Mr. Shi Jian	1,562	–	1,562
– Mr. Zhang Hongfei	1,331	–	1,331
– Mr. Shi Lizhou	1,058	–	1,058
– Mr. Li Yao Min	925	–	925
Non-executive directors			
– Mr. Cheung Wing Yui	–	360	360
– Mr. Jin Bing Rong	–	330	330
Independent non-executive directors			
– Mr. Chan, Charles Sheung Wai	–	330	330
– Mr. Yuan Pu	–	330	330
– Mr. Jiang Xie Fu	–	382	382
– Mr. Zhuo Fu Min	–	360	360
– Mr. Yang Chao (appointed in 2013)	–	36	36
Total	11,703	2,128	13,831

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

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

	2012				
Name of director and the chief executive	Salaries	Pension scheme	Fees	CNTD Manage-ment 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 Hongfei	1,610	–	–	–	1,610
– Mr. Shi Lizhou	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

* 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 as an incentive for their continued service to CNTD (the "Management Grant"). 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.

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 2013 and 2012.

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 2013 and 2012.

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2012: five) directors, details of whose remuneration are set out in Note 10 above. Details of the remuneration of the remaining two (2012: none) non-director, highest paid employees for the year are as follows:

	2013	2012
Salaries, housing allowances, other allowances and benefits in kind	**3,580**	–

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	2013	2012
HK$1,500,001-HK$2,000,000	**2**	–

12. INCOME TAX

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

	2013	2012
Current taxation		
– Mainland China income tax (a)	**105,533**	331,840
– Mainland China LAT (c)	**165,550**	(59,433)
	271,083	272,407
Deferred taxation		
– Mainland China income tax	**86,876**	(119,477)
– Mainland China LAT	**(74,136)**	59,957
– Mainland China withholding tax (d)	**10,786**	(24,656)
	23,526	(84,176)
Total tax charge for the year	**294,609**	188,231

12. INCOME TAX (continued)

(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$35 million as at 31 December 2013 (2012: HK$61 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.

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 1.5% to 4.5% (2012: 1% to 5%) on proceeds of the sale and pre-sale of properties. Prepaid LAT has been recorded in "prepaid income tax" with an amount of approximately HK$136 million as at 31 December 2013 (2012: approximately HK$168 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 required to be paid and thus credited to profit during the year ended 31 December 2012.

(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.

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

12. INCOME TAX (continued)

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:

	2013	2012
Profit before tax from continuing operations	499,739	600,635
Tax at the applicable tax rate of 25%	124,935	150,159
Different tax rates for certain subsidiaries	1,129	(45)
Tax effect of results attributable to associates	(1,211)	(1,771)
Impact of LAT (which is itself classified as part of income tax) as it is deductible for income tax purposes	(22,853)	(131)
Income not subject to tax	(3,602)	(2,023)
Tax losses not recognised	67,855	118,269
Expenses not deductible for tax	12,510	4,992
Utilisation of previously unrecognised tax losses	–	(57,087)
Previously recognised tax losses written off	41,808	–
Adjustment to current income tax in respect of prior years	(28,162)	–
Effect of withholding tax at 10% on the retained profits expected to be distributed of the Group's subsidiaries in Mainland China	10,786	(24,656)
Mainland China income tax	203,195	187,707
Mainland China LAT (including deferred LAT)	91,414	524
Total tax expense for the year at the Group's effective tax rate	294,609	188,231

The share of taxes from continuing operations attributable to associates amounting to approximately HK$0.7 million (2012: HK$0.2 million) is included in "share of profits and losses of associates" on the face of the consolidated statement of profit or loss and other comprehensive income.

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a gain of HK$58,085 thousand (2012: loss of HK$208,502 thousand) which has been dealt with in the financial statements of the Company.

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14. DISCONTINUED OPERATION

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"). 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, and hence, 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 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
Revenue	238,749
Cost of sales	(139,098)
Gross profit	99,651
Other gains – net	83,055
Selling and marketing costs	(113,193)
Administrative expenses	(110,366)
Operating loss of the discontinued operation	(40,853)
Finance income	5,267
Finance costs	(61,889)
Finance costs – net	(56,622)
Share of profits and losses of joint ventures	293
Loss before tax from discontinued operation	(97,182)
Income tax expense	(7,452)
Loss for the period from discontinued operation	(104,634)

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14. DISCONTINUED OPERATION (continued)

Since the Distribution is a distribution of non-cash assets 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 the 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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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
Operating activities	(614,123)
Investing activities	(146,757)
Financing activities	585,889
Net cash outflow	(174,991)
Loss per share:	
– Basic, from the discontinued operation	HK(1.22 cents)
– Diluted, from the discontinued operation	HK(1.22 cents)

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

	2012
Loss attributable to ordinary equity holders of the parent from the discontinued operation	(65,600)
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

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15. DIVIDENDS PAID AND PROPOSED

	2013	2012
Proposed final dividend	60,046	–

A final dividend of HK1.06 cents per share in respect of the year ended 31 December 2013 has been proposed at the meeting of the Board of Directors held on 28 March 2014 (2012: No final dividend). The proposed final dividend shall be paid on or around 10 July 2014, subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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 shareholdings 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 5,664,713 thousand (2012: 5,364,434 thousand) in issue during the year.

For the years ended 31 December 2013 and 2012, the calculation of diluted earnings per share amounts did not take into account the convertible bonds (Note 33) of the Company, because they are anti-dilutive. Hence, the diluted earnings per share amounts are the same as the basic earnings per share for the years ended 31 December 2013 and 2012.

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

	2013	2012
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations		
From continuing operations	200,171	432,907
From discontinued operation	–	(65,600)
	200,171	367,307

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

	Number of shares	
	2013	2012
	(Thousand shares)	(Thousand shares)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**5,664,713**	5,364,434
	5,664,713	5,364,434

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.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	2013					
	Buildings	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost						
Beginning of year	517,905	2,217	405,235	68,999	195,770	1,190,126
Additions	–	1,402	2,395	499	543,374	547,670
Disposals	–	–	(28,548)	(1,402)	–	(29,950)
Exchange realignment	16,271	91	12,355	2,100	14,243	45,060
End of year	534,176	3,710	391,437	70,196	753,387	1,752,906
Accumulated depreciation and impairment						
Beginning of year	71,657	417	251,004	52,121	–	375,199
Depreciation charge (Note 7)	13,934	244	27,799	6,755	–	48,732
Disposals	–	–	(25,730)	(969)	–	(26,699)
Exchange realignment	2,459	17	7,915	1,699	–	12,090
End of year	88,050	678	260,988	59,606	–	409,322
Net carrying amount						
Balance, end of year	446,126	3,032	130,449	10,590	753,387	1,343,584
Balance, beginning of year	446,248	1,800	154,231	16,878	195,770	814,927

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17. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	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	–	–	–	(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	–	–	–	(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

Depreciation expenses of approximately HK$37,701 thousand (2012: approximately HK$88,340 thousand), of approximately HK$206 thousand (2012: approximately HK$224 thousand) and of approximately HK$10,825 thousand (2012: approximately HK$12,273 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 2013, the property, plant and equipment with a net carrying amount of HK$1,308,566 thousand (2012: HK$766,994 thousand) were pledged as collateral for the Group's bank loans and facilities (Note 30).

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17. PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY

	2013		
	Furniture, fitting, fixtures and office equipment	Motor vehicles	Total
Cost			
Beginning of year	528	3,566	4,094
Disposals	(175)	–	(175)
Exchange realignment	28	112	140
End of year	381	3,678	4,059
Accumulated depreciation			
Beginning of year	429	2,193	2,622
Depreciation charge	22	652	674
Disposal	(155)	–	(155)
Exchange realignment	12	77	89
End of year	308	2,922	3,230
Net carrying amount			
Balance, end of year	73	756	829
Balance, beginning of year	99	1,373	1,472

	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

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18. INVESTMENT PROPERTIES

GROUP

Completed investment properties

	2013	2012
At beginning of year	4,792,658	6,604,711
Transfer from investment properties under construction	–	8,863
Transfer from prepaid land lease payments (Note 19)	6,891	193,013
Transfer from properties held or under development for sale	88,223	225,417
Fair value gain/(loss) from continuing operations (Note 6)	166,291	(40,715)
Fair value gain from discontinued operation	–	76,438
Addition in cost	5,964	4,776
Disposal of CNTD Group as a result of the Distribution (Note 14)	–	(921,264)
Disposal of a subsidiary	–	(1,344,759)
Exchange realignment	154,548	(13,822)
At end of year	5,214,575	4,792,658

Investment property under construction

	2013	2012
At the beginning of the year	–	123,350
Additions	–	8,953
Transfers to completed investment properties	–	(8,863)
Disposal of CNTD Group as a result of the Distribution (Note 14)	–	(122,369)
Exchange realignment	–	(1,071)
At end of year	–	–

The investment properties as at 31 December 2013 mainly represent the properties as follows:

– Portions of 8 multi-storey shopping malls and car-park places at Putuo District, Shanghai, with a total fair value of approximately HK$1,263 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$3,476 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$455 million, for which the operating lease has a term of 20 years.

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18. INVESTMENT PROPERTIES (continued)

GROUP (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2013 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:				
Commercial properties	–	–	4,923,542	4,923,542
Car parks	–	–	291,033	291,033
	–	–	5,214,575	5,214,575

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties	Car parks	Total
Carrying amount at 1 January 2013	4,533,193	259,465	4,792,658
Transfer from prepaid land lease payments	6,891	–	6,891
Transfer from properties held or under development for sale	88,223	–	88,223
Fair value gain from continuing operations	143,218	23,073	166,291
Addition in cost	5,964	–	5,964
Exchange realignment	146,053	8,495	154,548
Carrying amount at 31 December 2013	4,923,542	291,033	5,214,575

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18. INVESTMENT PROPERTIES (continued)

GROUP (continued)

As at 31 December 2013, 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 capitalisation method) or direct comparison approach for those investment properties. The following significant unobservable inputs have been used:

	2013	2012
Yield		
Shanghai Oasis Central Ring Centre – Office	4%–4.5%	4%-4.5%
Shanghai Oasis Central Ring Centre – Shopping Mall	6%–6.5%	6%–6.5%
Shenyang Richgate Shopping Mall	5%–6%	5%–6%
Shanghai Shuocheng Supermarket	5%–5.5%	5%–5.5%

The term and reversion method measures the fair value of the property by taking into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates. The direct capitalisation method measures the fair value of the property by assuming a stabilised economic income capitalised by a market yield rate. The market yield was developed based on the research on the sales and rental evidences of the similar properties in the surrounding market and assuming the existing tenancy will be extended. A significant increase (decrease) in the estimated market yield would result in a significant decrease (increase) in the fair value of the investment properties.

The direct comparison approach measures the fair value of the property with reference to the sales transactions of the comparable properties as available in the market and the consideration of due adjustments for differences between the subject property and the comparable ones. The adjustments would reflect the differences in location, infrastructure availability, neighbourhood environment, and size of the properties in the determination of the adjusted price. A significant increase (decrease) in the adjusted unit price of comparable properties would result in a significant increase (decrease) in the fair value of the investment properties.

The Group's investment properties are all situated in Mainland China and are held under medium-term (less than 50 years but not less than 10 years) leases.

The investment properties pledged for bank borrowings are disclosed in Note 30.

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

	2013	2012
Rental income (Note 5)	96,596	143,221
Direct operating expenses arising from investment properties that generate rental income	(30,300)	(34,669)
Gain/(loss) from increase/(decrease) in fair value	166,291	(40,715)

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19. PREPAID LAND LEASE PAYMENTS

GROUP

	2013	2012
In Mainland China, held on:		
– Leases of over 50 years	8,356,624	8,297,379
– Leases of between 10 and 50 years	3,081,766	3,058,935
In other country, free held	–	45,636
	11,438,390	11,401,950

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

	2013	2012
At beginning of year	11,401,950	12,926,887
Additions	227,838	718,195
Acquisition of a subsidiary	–	483,699
Transfer to investment properties (Note 18)	(6,891)	(193,013)
Amortisation capitalised as properties under development for sale	(244,410)	(224,431)
Disposals with the sale of completed properties	(289,140)	(284,991)
Disposal of a subsidiary	–	(709,623)
Disposal of CNTD Group as a result of the Distribution (Note 14)	–	(1,294,605)
Amortisation for continuing operations	(4,451)	(5,793)
Amortisation for a discontinued operation	–	(4,200)
Exchange realignment	353,494	(10,175)
At end of year	11,438,390	11,401,950
Analysed as:		
Non-current: In relation to properties classified under property, plant and equipment	137,806	141,391
Current: In relation to properties held or under development for sale	11,300,584	11,260,559
	11,438,390	11,401,950

As at 31 December 2013, the Group's leasehold land of approximately HK$8,718 million (2012: HK$9,642 million) was pledged as collateral for the Group's bank loans and facilities (Note 30).

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20. GOODWILL

GROUP

	2013	2012
Cost		
At beginning of year	703,947	704,120
Exchange realignment	22,153	(173)
At end of year	726,100	703,947
Accumulated impairment		
At beginning of year	55,548	55,562
Impairment losses recognised (Note 6)	17,206	–
Exchange realignment	2,038	(14)
At end of year	74,792	55,548
Net carrying amount		
Balance, end of year	651,308	648,399
Balance, beginning of year	648,399	648,558

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 four 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 cash-generating units have been determined based on a value-in-use calculation using cash flow projections based on forecasts covering five-year, seven-year and two-year periods respectively, approved by management. The pre-tax discount rates applied to the cash flow projections are 20.5% (2012: 17.2%), 12.1% (2012: 14.4%) and 18.4% (2012: 17.6%), 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:

	2013	2012
Shenyang Albany Oasis Garden	402,763	390,495
Richgate II	96,498	93,558
Bairun	183,610	178,017
Others	43,229	41,877
	726,100	703,947

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 2013, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill arising from the acquisition of Wuxi Zhongqing Real Estate Co., Ltd. ("Wuxi Zhongqing") was higher than its recoverable amount. Since the properties developed by Wuxi Zhongqing were sold to buyers in 2013, the amount of value-in-use of the cash-generating unit decreased significantly and was below its carrying amount as of 31 December 2013. As a result, the Company provided an impairment loss of RMB14 million (approximately HK$17 million) in the Group's consolidated financial statements for the year ended 31 December 2013 (2012: nil).

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21. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES

(a) Investments in subsidiaries

COMPANY

	2013	2012
Unlisted equity interests, at cost	5,127,579	4,971,393

As at the 31 December 2013, the Company had direct or indirect interests in the following principal subsidiaries:

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by subsidiaries	Issued and paid-up capital	Authorised share capital	Principal activities
Sinopower Investment Limited	British Virgin Islands ("BVI") 1 October 1998	100%	–	US$1	US$1	Investment holding
Shanghai Xin Dong Industry Co., Ltd.	PRC/Mainland China 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/Mainland China 1 September 1995	–	98.57%	RMB42,200,000	RMB42,200,000	Property management
Shanghai Oasis Garden Real Estate Co., Ltd.	PRC/Mainland China 29 September 1998	–	98.75%	US$19,600,000	US$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd.	PRC/Mainland China 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/Mainland China 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/Mainland China 16 April 2002	–	51.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd.	PRC/Mainland China 14 June 2002	–	98%	US$10,000,000	US$10,000,000	Property development
Shanghai Andong Real Estate Development Ltd.	PRC/Mainland China 18 October 2007	–	99%	RMB370,000,000	RMB370,000,000	Property development

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

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by subsidiaries	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Jinwu Real Estate Co., Ltd.	PRC/Mainland China 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/Mainland China 28 October 2002	–	100%	RMB700,000,000	RMB700,000,000	Property development
Shanghai Skyway Hotel Co., Ltd.	PRC/Mainland China 9 December 2002	–	56%	RMB200,000,000	RMB200,000,000	Hotel operations
Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management") (i)	PRC/Mainland China 30 October 2007	–	100%	US$31,936,200	US$31,936,200	Property leasing
Shanghai Shuo Cheng Real Estate Co., Ltd.	PRC/Mainland China 29 January 2003	–	100%	RMB450,000,000	RMB450,000,000	Property development
Shanghai Shangzhi Real Estate Development Co., Ltd.	PRC/Mainland China 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/Mainland China 4 December 2000	–	97.5%	RMB750,000,000	RMB750,000,000	Property development
Haikou Century Harbour City Co., Ltd. ("Haikou Century")	PRC/Mainland China 25 June 2008	–	79%	RMB220,000,000	RMB220,000,000	Property development
Shenyang Lukang Real Estate Ltd.	PRC/Mainland China 13 July 2007	–	98.95%	US$31,250,000	US$31,250,000	Property development
Haikou Century Richgate Business Administration Co., Ltd.	PRC/Mainland China 20 October 2008	–	100%	US$300,000	US$300,000	Hotel administration
Shanghai Lushan Real Estate Ltd.	PRC/Mainland China 4 August 2004	–	27.70%	RMB11,110,000	RMB11,110,000	Property development
Shanghai Xiangdao Real Estate Ltd.	PRC/Mainland China 21 July 2009	–	98.75%	RMB330,000,000	RMB330,000,000	Property development

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

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Held by subsidiaries			
Shanghai Xiabo Industry Ltd.	PRC/Mainland China 14 September 1995	–	98.75%	RMB3,000,000	RMB3,000,000	Property development
Shanghai Haibo Property development Co., Ltd.	PRC/Mainland China 27 December 1996	–	98.75%	RMB15,000,000	RMB15,000,000	Property development
Shanghai Bairun Real Estate Co., Ltd. ("Bairun")	PRC/Mainland China 16 May 2002	–	50.36%	RMB605,500,000	RMB605,500,000	Property development
Wuxi Zhongqing Real Estate Co., Ltd.	PRC/Mainland China 11 July 2008	–	98.75%	RMB85,000,000	RMB85,000,000	Property development
Wuxi Yongqing Real Estate Co., Ltd. ("Wuxi Yongqing")	PRC/Mainland China 27 January 2007	–	98.75%	RMB20,000,000	RMB20,000,000	Property development
Jiaxing Lake Richgate Real Estate Co., Ltd.	PRC/Mainland China 26 September 2007	–	98.96%	US$49,900,000	US$49,900,000	Property development
Shanghai Zhiyi Enterprise Ltd.	PRC/Mainland China 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 Lake Malaren Property Management Co., Ltd.	PRC/Mainland China 23 June 2005	–	98.57%	RMB5,000,000	RMB5,000,000	Property management
Shanghai Zhihui Construction Co., Ltd.	PRC/Mainland China 26 Nov 2012	–	98.96%	RMB5,000,000	RMB5,000,000	Procurement management
Dalian Shangzhi Real Estate Development Co.,Ltd.	PRC/Mainland China 19 July 2013	–	50.36%	RMB30,000,000	RMB30,000,000	Property development

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

(a) Investments in subsidiaries (continued)

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.

In 2013, there was a major transaction relating to the investments in subsidiaries, with details as follows:

(i) On 28 December 2012, the Group exercised a call option (see Note 34) and simultaneously entered into an acquisition agreement in relation to purchase a 40% equity interest of Huarui Asset Management, which stipulated that the consideration was HK$650 million which was to partly offset by the earnest money of HK$192 million. Pursuant to the agreement, the Group subsequently paid all the remaining HK$458 million and the transaction was completed in May 2013. Upon the completion of the transaction, Huarui Asset Management became a 100% wholly-owned subsidiary of the Group.

(b) Advances to subsidiaries

COMPANY

All the advances to subsidiaries as at 31 December 2013 and 2012 were unsecured, interest-free and had no fixed repayment terms.

22. INVESTMENTS IN ASSOCIATES

GROUP

	2013	2012
Unlisted equity interests		
Share of net assets	75,939	76,533
Less: Provision for impairment	–	–
	75,939	76,533

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22. INVESTMENTS IN ASSOCIATES (continued)

GROUP (continued)

As at the 31 December 2013, the Company had indirect interests in the following principal associates:

Name	Place and date of incorporation or establishment and business	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//Mainland China 6 May 1997	–	26%	RMB100,000,000	RMB100,000,000	Research and development of housing technology
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC/Mainland China 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.

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22. INVESTMENTS IN ASSOCIATES (continued)

GROUP (continued)

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

	2013	2012
Current assets	180,721	194,526
Non-current assets	56,640	60,174
Current liabilities	(43,255)	(45,006)
Net assets	194,106	209,694
Revenue	145,053	181,464
Profit after tax	17,165	42,497
Total comprehensive income for the year	17,165	42,497
Dividend received	7,800	7,642

(2) New Technology

	2013	2012
Current assets	99,222	88,534
Non-current assets	35,808	35,397
Current liabilities	(3,400)	(1,649)
Net assets	131,630	122,282
Revenue	4,439	3,818
Profit/(loss) after tax	5,432	(5,440)
Total comprehensive income for the year	5,432	(5,440)
Dividend received	–	–

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

23. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	2013	2012
At cost		
– In Shanghai City, PRC	5,015,441	4,532,663
– In Shenyang City, PRC	1,396,608	897,075
– In Wuxi City, PRC	356,103	536,829
– In Jiaxing City, PRC	1,113,850	594,258
– In Haikou City, PRC	109,136	311,043
– In Sydney City, Australia	–	60,299
	7,991,138	6,932,167

GROUP

	2013	2012
Properties held or under development expected to be completed		
– Within one year	4,041,853	4,676,816
– After one year	3,949,285	2,255,351
	7,991,138	6,932,167

As at 31 December 2013 and 2012, 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 30).

24. PREPAYMENTS AND OTHER CURRENT ASSETS

	Group		Company	
	2013	2012	2013	2012
Non-current				
Prepayment (a)	6,360	192,000	–	–
	6,360	192,000	–	–
Current				
Prepaid business tax	41,393	61,894	–	–
Prepayments (b)	75,372	105,029	–	–
Prepaid relocation compensation to a local government authority (c)	1,017,553	–	–	–
Others	11,022	8,539	2,881	4,355
	1,145,340	175,462	2,881	4,355

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24. PREPAYMENTS AND OTHER CURRENT ASSETS (continued)

(a) On 12 December 2013, the Company signed a letter of intent with third parties (the "Vendor") to acquire 100% equity interest in a real estate company in Shanghai with a total consideration of RMB800 million (HK$1,018 million). In connection with this transaction, the Group paid RMB5 million (equivalent to HK$6 million) to the Vendor as earnest money. The earnest money was interest-free, and should be refunded to the Company under certain specified conditions

The non-current prepayment as of 31 December 2012 was a non-interest-bearing earnest money of HK$192 million paid to a non-controlling shareholder. As mentioned in Note 21(a), the earnest money was partly offset against the purchase consideration in 2013.

(b) The above current prepayments as at 31 December 2013 mainly included approximately HK$50 million (2012: HK$95 million) of prepayments for properties under development and HK$25 million (2012: nil) of prepaid financing cost for obtaining a new banking facility.

(c) The balance as at 31 December 2013 represented a prepayment of RMB800 million (approximately HK$1,018 million) to a local government authority as prepaid relocation compensation of Richgate II project in Shanghai.

25. OTHER RECEIVABLES

GROUP

	2013	2012
Receivables in connection with acquisition of Konmen Investment Limited (a)	**185,090**	711,607
Receivables due from a former subsidiary (b)	**139,914**	499,016
Deposit for a real estate project	**12,719**	12,332
Relocation compensation receivable from the government	**32,267**	96,235
Deposit for land bidding	**20,351**	–
Interest receivable	**30,769**	16,969
Others	**85,387**	75,580
	506,497	1,411,739
Less: Provision for impairment	**(2,681)**	(2,655)
Other receivables, net	**503,816**	1,409,084

25. OTHER RECEIVABLES (continued)

GROUP (continued)

(a) On 17 August 2007, SRE Investment Holding Limited ("SREI", 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, 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 at a consideration of HK$1,600 million. Pursuant to the Acquisition Agreement, the consideration was satisfied by the Company issuing shares to the Vendor.

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

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 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.

Pursuant to the above agreements, the Vendor has also undertaken to pay Liaoning Gao Xiao the above-mentioned amounts, to the extent they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. In the event that Liaoning Gao Xiao failed to obtain the relevant land use right by 30 June 2009, the Vendor would undertake to pay the Company HK$1,600 million in cash on or before 30 December 2009. On 4 December 2009, the Special General Meeting of the Company passed a resolution that the Company shall not exercise its right under the above agreements and shall delay enforcement against the Vendor to 31 December 2012.

In early 2013, the Group received from the Vendor the full settlement of the 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 which would have to be reimbursed from the Vendor according to the agreements above, as such amount has not been paid for by the Original Shareholder or the Original Minority Shareholder, was approximately RMB149 million (approximately HK$184 million) (i.e., the balance of Liabilities net of the balance of the Assets). As of 31 December 2013, the amount decreased to RMB 145 million (approximately HK$185 million) as a result of a change in the estimated amount of Liabilities net of the Assets in relation to the Properties.

(b) The other receivables balance as at 31 December 2013 included a receivable of RMB110 million (2012: RMB405 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 in 2012.

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26. TRADE RECEIVABLES

GROUP

	2013	2012
Trade receivables	**45,680**	41,738
Less: Provision for impairment	**(10,177)**	(10,617)
	35,503	31,121

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

	2013	2012
Within 6 months	**26,176**	23,061
6 months to 1 year	**379**	1,621
1 to 2 years	**7,913**	7,510
Over 2 years	**11,212**	9,546
	45,680	41,738

The Group's sales of development properties and hotel operations 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 generally within 6 months.

The Group's other trade receivables are related 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:

	2013	2012
Neither past due nor impaired	**31,702**	28,037
Past due but not impaired:		
Within 30 days	**130**	159
30 to 60 days	**1,954**	1,057
Over 120 days	**1,717**	1,868
	35,503	31,121

Receivables that were past due but not impaired are related 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.

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26. TRADE RECEIVABLES (continued)

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

	2013	2012
At beginning of year	**10,617**	10,620
Reversal of impairment	**(773)**	–
Exchange realignment	**333**	(3)
At end of year	**10,177**	10,617

Provision for impairment of trade receivables for HK$773 thousand (2012: nil) was reversed during the year ended 31 December 2013.

27. CASH AND BANK BALANCES

	Group		**Company**	
	2013	2012	**2013**	2012
Cash on hand	**2,719**	4,691	**28**	14
Demand and notice deposits	**1,379,501**	1,248,313	**56,670**	20,710
Cash and cash equivalents	**1,382,220**	1,253,004	**56,698**	20,724
Time deposits with original maturity of more than 3 months	**2,544**	2,466	**–**	–
Pledged bank deposits (a)	**1,538,293**	762,007	**–**	–
Restricted bank deposits under a development project (b)	**9,180**	9,428	**–**	–
Restricted bank deposits under government supervision	**–**	750	**–**	–
Restricted bank deposits relating to bank borrowings (c)	**8,859**	4,352	**–**	–
Cash and bank balances	**2,941,096**	2,032,007	**56,698**	20,724

(a) As at 31 December 2013, bank deposits of approximately HK$1,538 million (2012: HK$762 million) were pledged as securities for bank borrowings (Note 30).

(b) These restricted bank deposits are mainly funds designated for relocating existing residents under a development project. As at 31 December 2013, such funds amounted to approximately HK$9 million (2012: approximately HK$9 million).

(c) An amount of HK$9 million (2012: HK$4 million) is restricted in connection with bank borrowings.

27. CASH AND BANK BALANCES (continued)

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

	Group		Company	
	2013	2012	**2013**	2012
Hong Kong dollars	**55,901**	9,598	**55,847**	9,503
United States dollars	**6,823**	14,729	**822**	11,220
Singapore dollars	**1**	1	**1**	1
Australia dollars	**73,968**	1,409	**–**	–
RMB	**2,804,403**	2,006,270	**28**	–
	2,941,096	2,032,007	**56,698**	20,724

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.

28. ISSUED SHARE CAPITAL AND PREMIUM

GROUP AND COMPANY

		Amount		
	Number of shares (thousands)	**Issued capital**	**Share premium**	**Total**
At 1 January and 31 December 2013	**5,664,713**	**566,471**	**5,434,267**	**6,000,738**

		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 issue	708,089	70,809	138,215	209,024
31 December 2012	5,664,713	566,471	5,434,267	6,000,738

The total authorised number of ordinary shares is 8,000 million (2012: 8,000 million), each share with a par value of HK$0.10 (2012: HK$0.10). All issued shares are fully paid up.

No share options of the Company were outstanding as at 31 December 2013 and 2012.

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29. 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.

(b) COMPANY

	Exchange fluctuation reserve	Equity component of convertible bonds	Retained profits/ (accumulated losses)	Others	Total
Balance at 1 January 2013	**1,026,466**	**2,810**	**6,861**	**179,875**	**1,216,012**
Total comprehensive income for the year	**227,593**	**–**	**58,085**	**–**	**285,678**
Proposed final 2013 dividend	**–**	**–**	**(60,046)**	**–**	**(60,046)**
Balance at 31 December 2013	**1,254,059**	**2,810**	**4,900**	**179,875**	**1,441,644**

	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 33)	–	–	(7,170)	–	–	(7,170)
Transfer upon partial redemption of CB4 (Note 33)	–	–	(169,381)	–	169,381	–
Transfer upon the expiration of the share option scheme	(248)	–	–	–	248	–
Disposal of CNTD via the Distribution (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

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30. INTEREST-BEARING BANK AND OTHER BORROWINGS

GROUP AND COMPANY

	Group		Company	
	2013	2012	2013	2012
Short-term bank borrowings				
– Secured	494,276	263,904	–	–
Other short-term borrowings				
– Unsecured	422,920	154,150	–	–
Current portion of long-term bank borrowings				
– Secured	1,593,376	3,985,874	1,193,986	649,960
Current portion of other long-term borrowings				
– Secured	2,811,890	–	–	–
Borrowings, current portion	5,322,462	4,403,928	1,193,986	649,960
Long-term bank borrowings				
– Secured	9,208,479	4,703,304	216,385	165,698
Other long-term borrowings				
– Secured	915,798	1,944,753	–	–
– Unsecured	109,663	22,777	109,663	22,777
Borrowings, non-current portion	10,233,940	6,670,834	326,048	188,475
The long-term borrowings are repayable as follows:				
– Within 1 year	4,405,266	3,985,874	1,193,986	649,960
– 1 to 2 years	1,642,026	3,244,643	18,006	165,698
– 2 to 3 years	1,232,111	365,926	198,379	–
– 3 to 5 years	6,164,845	1,447,494	–	–
– After 5 years	1,194,958	1,612,771	109,663	22,777
	14,639,206	10,656,708	1,520,034	838,435
Less: Long-term borrowings, current portion	(4,405,266)	(3,985,874)	(1,193,986)	(649,960)
Long-term borrowings, non-current portion	10,233,940	6,670,834	326,048	188,475

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

GROUP AND COMPANY (continued)

Short-term bank borrowing – secured

As at 31 December 2013, a short-term bank loan of approximately HK$494 million (2012: approximately HK$264 million) was secured by the pledge of bank deposits, leasehold land and properties held or under development for sale.

Long-term bank borrowings – secured

As at 31 December 2013, long-term bank borrowings of approximately HK$10,802 million (2012: approximately HK$8,689 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$220 million was secured by the 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 2013, long-term borrowings of approximately HK$3,728 million (2012: approximately HK$1,945 million) were from third party trust funds which are secured by the pledges of the Group's leasehold land, properties held or under development for sale, and 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. 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. Among the above other long-term borrowings, a term loan with a principal of HK$1,272 million equivalent (entered into in 2013) is guaranteed by SREI and Mr. Shi Jian.

Overall collateral arrangements for bank and other borrowings

As at 31 December 2013, bank deposits of approximately HK$1,538 million (2012: approximately HK$762 million) (Note 27), leasehold land of approximately HK$8,718 million (2012: approximately HK$9,642 million) (see Note 19), investment properties of approximately HK$5,194 million (2012: approximately HK$4,345 million), properties held or under development for sale of approximately HK$5,113 million (2012: approximately HK$3,412 million), property, plant and equipment of approximately HK$1,309 million (2012: approximately HK$767 million) (see Note 17) and equity interests in certain subsidiaries with total costs of approximately HK$5,621 million (2012: approximately HK$4,436 million) were pledged as collateral for the Group's borrowings and banking facilities.

As at 31 December 2013, no bank borrowings (2012: HK$100 million) were secured by future property pre-sales proceeds under certain projects. For some 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 equals the outstanding balance of such loans. For some projects, related bank borrowings are required to be repaid when a pre-determined percentage of properties in the projects have been pre-sold.

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

30. 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:

	2013			2012		
	HK$	**US$**	**RMB**	HK$	AUD	RMB
Short-term bank borrowings	**–**	**–**	**6.08%**	–	–	6.12%
Other short-term borrowings	**–**	**–**	**7.80%**	–	–	6.00%
Long-term bank borrowings	**2.17%**	**1.40%**	**6.88%**	3.85%	6.57%	6.76%
Other long-term borrowings	**8.16%**	**–**	**13.22%**	8.92%	–	13.80%

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**	
	2013	2012	**2013**	2012
Hong Kong dollars	**946,172**	838,434	**946,172**	838,435
United States dollars	**573,862**	–	**573,862**	–
Australian dollars	**–**	48,023	**–**	–
RMB	**14,036,368**	10,188,305	**–**	–
	15,556,402	11,074,762	**1,520,034**	838,435

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

	2013	2012
Floating rate loan facilities		
– expiring within 1 year	**195,332**	58,931
– expiring beyond 1 year	**1,064,615**	272,150
	1,259,947	331,081

31. GUARANTEED SENIOR NOTES

GROUP AND COMPANY

	2013	2012
Guaranteed Senior Notes	–	561,539

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

	2013		2012	
	US$'000	HK$ equivalent HK$'000	US$'000	HK$ equivalent HK$'000
At beginning of year	72,443	561,539	72,005	559,646
Foreign exchange gain	–	(4,552)	–	(1,082)
Exchange realignment	–	12,219	–	(131)
Add: Interest expense (Note 9)	2,100	16,274	6,602	50,911
Less: Payment of interest	(3,082)	(23,906)	(6,164)	(47,805)
Less: Redemption	(71,461)	(561,574)	–	–
At end of year	–	–	72,443	561,539

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 were guaranteed by some investment holding subsidiaries which were not established in the PRC.

Interest of the Guaranteed Senior Notes was payable semi-annually in arrears. The Company could redeem the Guaranteed Senior Notes during specified periods at pre-determined prices.

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

Interest expense on the Guaranteed Senior Notes was 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. The remaining principal amount of US$71,461 thousand was redeemed on 24 April 2013.

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32. 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.

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

	2013	2012
At beginning of year	**1,366,686**	1,637,749
Disposal of CNTD Group as a result of the Distribution (Note 14)	**–**	98,417
Disposal of a subsidiary	**–**	(291,623)
Recognised in profit or loss from continuing operations (Note 12)	**23,526**	(84,176)
Recognised in profit or loss from discontinued operation	**–**	7,445
Exchange realignment	**43,287**	(1,126)
At end of year	**1,433,499**	1,366,686

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 2012	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 a 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
Recognised in profit or loss	(58,058)	–	–	18,588	(39,470)
Exchange realignment	5,671	–	1,639	8,868	16,178
At 31 December 2013	**155,613**	**–**	**300,968**	**53,743**	**510,324**

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32. 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 2012	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 a discontinued operation	16,231	(404)	–	–	15,827
Disposal of a subsidiary	(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
Recognised in profit or loss	41,032	(17,565)	10,786	(50,197)	(15,944)
Exchange realignment	21,413	18,652	12,088	7,312	59,465
At 31 December 2013	**724,548**	**603,087**	**402,532**	**213,656**	**1,943,823**

As at 31 December 2013, the deferred tax asset arising from unused tax losses amounted to approximately HK$156 million (2012: HK$208 million), which mainly consists of the deferred tax asset of a subsidiary of approximately HK$149 million (2012: HK$185 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 believes that sufficient taxable profit will be available against which the unused tax losses can be utilised in the foreseeable future.

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32. 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:

	2013	2012
Net deferred tax assets recognised in the consolidated statement of financial position	**(510,324)**	(533,616)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**1,943,823**	1,900,302
	1,433,499	1,366,686

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

	2013	2012
Tax losses	**673,782**	492,537
	673,782	492,537

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 mentioned above 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 the 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 be reversed 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$979 million (2012: approximately HK$750 million).

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

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33. 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:

	2013	2012
Convertible Bonds 4 – host debt	8,332	7,183
	8,332	7,183

On 23 July 2009, the Company issued Convertible Bonds 4 (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. The CB4 bear interest at the coupon rate of 6% per annum, and are payable semi-annually in arrears. The bondholders can convert the CB4 to ordinary shares of the Company at any time after 41 days from the 23 July 2009 to 10 business days before maturity. On 23 July 2012, the bondholders have the right (the "Put Option") to require the Company to redeem all or some of the CB4 at a redemption price equal to 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 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.

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

The face value of the outstanding CB4 as at 31 December 2013 and 2012 amounted to RMB7 million (equivalent to HK$9 million).

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33. CONVERTIBLE BONDS (continued)

GROUP AND COMPANY (continued)

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

	2013	2012
Host debt component at beginning of year	7,183	515,814
Interest expense (Note 9)	1,429	54,805
Adjustment to the carrying amount due to changed expected life (Note 9)	–	(1,795)
Payment of interest	(519)	(19,147)
Redemption	–	(540,617)
Exchange realignment	239	(1,877)
Host debt component at end of year	8,332	7,183
Less: Amount classified as a current liability	(8,332)	–
Amount classified as a 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 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.

34. DERIVATIVE FINANCIAL ASSET

GROUP

	2013	2012
Derivative in connection with acquisition of a non-controlling interest	–	74,608
	–	74,608

As at 31 December 2012, this derivative financial asset represented a forward which resulted from the execution of a call option to purchase aggregate up to 40% of the equity interest (the "Interest") in Huarui Asset Management and an acquisition agreement entered on 28 December 2012. The forward (conditional upon fulfilment of certain conditions) was to buy the Interest based on a valuation result of net assets of Huarui Asset Management by an independent property valuer. The acquisition was completed in May 2013.

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

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

GROUP

	2013	2012
Advances received from the pre-sale of properties under development	**1,177,218**	1,495,886

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.

36. 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:

	2013	2012
Within 1 year	**1,169,764**	1,623,171
1 to 2 years	**433,290**	109,111
Over 2 years	**200,989**	332,390
	1,804,043	2,064,672

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.

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37. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
Payables for prepaid land lease payments	**–**	222,273	**–**	–
Deposits received from and other payable to customers and construction companies	**104,192**	252,585	**–**	–
Business tax and surtaxes payable	**44,141**	26,536	**–**	–
Interest payable to a former non-controlling shareholder of a subsidiary	**6,285**	6,094	**–**	–
Payable to a non-controlling shareholder	**10,621**	12,417	**–**	–
Dividends payable to non-controlling shareholders of subsidiaries	**42,417**	38,856	**–**	–
Relocation costs payable	**2,235**	6,422	**–**	–
Deposits from stores, rents received for developers and public utility fees collected and paid for tenants	**50,264**	49,355	**–**	–
Payroll and welfare payable	**10,810**	14,491	**–**	–
Accrued interest	**11,834**	12,144	**875**	5,514
Payables to former shareholders of a subsidiary for business combination	**19,434**	134,761	**–**	–
Payables to former shareholders of subsidiaries for acquisition of non-controlling interests	**21,623**	20,964	**–**	–
Payable to the former non-controlling shareholder of a subsidiary disposed of	**25,439**	24,664	**–**	–
Advance received in relation to a potential borrowing	**10,000**	–	**10,000**	–
Others	**61,726**	49,805	**1,457**	1,495
	421,021	871,367	**12,332**	7,009

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38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2013	2012
Profit/(loss) before tax:		
From continuing operations	499,739	600,635
From a discontinued operation	–	(97,182)
Adjustments for:		
Depreciation of property, plant and equipment	48,732	144,170
(Reversal)/provision of impairment of receivables	(817)	910
Loss/(gain) on disposal of property, plant and equipment, net	2,407	(198)
Share of profits of associates	(4,846)	(7,084)
Share of profits of joint ventures	–	(293)
Fair value gain on derivative financial instruments	–	(20,524)
Fair value gain on investment properties	(166,291)	(35,723)
Gain on disposal of subsidiaries	–	(273,428)
Gain on redemption of CB4	–	(7,170)
Impairment of goodwill	17,206	–
Management share option expenses	–	2,558
Finance income	(87,455)	(41,046)
Finance costs	352,117	360,566
	660,792	626,191
Decrease/(increase) in restricted bank deposits	998	(1,029)
Decrease/(increase) in prepaid land lease payments	310,166	(181,583)
(Increase)/decrease in properties held or under development for sale	(214,931)	335,194
(Increase)/decrease in inventories	(225)	237
(Increase)/decrease in prepayments and other current assets	(950,273)	139,843
Decrease/(increase) in other receivables	160,240	(319,398)
Increase in trade receivables	(3,353)	(64,569)
Decrease in trade payables	(586,757)	(617,463)
Decrease in other payables and accruals	(473,002)	(210,437)
Increase in land development for sale	–	(101,618)
Decrease in deferred income	–	(2,841)
Decrease in advances received from the pre-sale of properties under development	(360,302)	(710,559)
Cash used in operations	(1,456,647)	(1,108,032)

(b) Except for the disposal of shares in CNTD in the Distribution (see Note 14), there was no significant non-cash transaction during the years ended 31 December 2013 and 2012.

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39. 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 2013, the Group had total future minimum lease receivables under operating leases with its tenants falling due as follows:

GROUP

	2013	2012
Within one year	**96,361**	93,955
In the second to fifth years, inclusive	**285,128**	304,066
After five years	**475,837**	516,063
	857,326	914,084

The contingent rental income recognised in 2013 was HK$14,744 thousand (2012: HK$12,503 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 one to five years, and those for office equipment are for terms mainly ranging between two and five years.

At 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

GROUP

	2013	2012
Within one year	**4,310**	7,049
In the second to fifth years, inclusive	**5,995**	7,529
After five years	**–**	740
	10,305	15,318

COMPANY

	2013	2012
Within one year	**3,522**	5,572
In the second to fifth years, inclusive	**5,283**	6,984
	8,805	12,556

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40. COMMITMENTS AND CONTINGENCIES

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

	Group		Company	
	2013	2012	2013	2012
Contracted, but not provided for				
Investment property under construction	–	5,135	–	–
Properties held or under development for sale	1,348,489	1,267,637	–	–
Property, plant and equipment and leasehold land	24,753	195,541	–	–
Consideration for potential amount in connection with acquisition of a non-controlling interest	–	458,000	–	–
	1,373,242	1,926,313	–	–
Authorised, but not contracted for				
Properties held or under development for sale	399,324	965,763	–	–
Property, plant and equipment and leasehold land	19,215	189,122	–	–
	418,539	1,154,885	–	–
	1,791,781	3,081,198	–	–

(b) The Group provides guarantees in respect of the mortgage facilities granted by certain banks to 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 when the relevant mortgage loans are granted and end when the purchasers pledge related property certificates as security to the banks offering the mortgage loans. The Group entered into guarantee contracts of principal amounts totalling approximately RMB484 million (equivalent to HK$615 million) (2012: RMB452 million (equivalent to HK$557 million)) and these contracts were still effective as at the close of business on 31 December 2013.

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 principal of each of the mortgage loans is normally below 70% of sales price of the property at date of the sales agreement, and therefore no provision has been made in connection with the guarantees.

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41. 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.

In the opinion of the Directors, as at 31 December 2013 and 2012, the Company's parent company was SREI, also, as mentioned in Note 14, 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.

Significant related party transactions during the year:

i) Sales to and purchases from associates and the relevant balances

	2013	2012
Trade receivable from Broadband	**314**	304
Purchase goods from New Technology *	–	3,818
Trade payable to New Technology	**1,189**	1,893

ii) Property management service to a related party and the relevant balances

	2013	2012
Property management service to CNTD Group after the disposal of CNTD *	–	3,204
Receivable from CNTD Group after the disposal of CNTD	**636**	1,688

* The transactions were based on negotiated prices.j

iii) Loan guarantee/security

A term loan of HK$220 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 (2012: HK$260 million).

A term loan of HK$1,272 million is guaranteed by SREI and Mr. Shi Jian (2012:Nil).

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41. RELATED PARTY TRANSACTIONS (continued)

GROUP (continued)

Significant related party transactions during the year: (continued)

iv) Compensation to key management personnel of the Group

	2013	2012
Salaries and other short-term employee benefits	18,415	21,644
Share-based payments (Management Grant of CNTD Group)	–	618
	18,415	22,262

v) Issuance of rights issue

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.

vi) 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 the 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 request from 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 the expiry of the financial support.

The related party transaction under the underwriting agreement in respect of item v) above constituted a connected transaction (which was exempted from all reporting, announcement and independent shareholders' approval requirements). The related party transaction in respect of item ii) above constituted a connected transaction (entered into when CNTD was still a subsidiary of the Company) upon the disposal of CNTD in October 2012, as defined in Chapter 14A of the Rules Governing the Listing of Securities on the HKEx.

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42. 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	**2013**	2012
Loans and receivables		
– Other receivables	**503,816**	1,409,084
– Trade receivables	**35,503**	31,121
– Cash and bank balances	**2,941,096**	2,032,007
Financial asset at fair value through profit or loss		
– Derivative financial asset	**–**	74,608
	3,480,415	3,546,820

Financial liabilities	**2013**	2012
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	**15,556,402**	11,074,762
– Guaranteed senior notes	**–**	561,539
– Convertible bonds – host debts	**8,332**	7,183
– Trade payables	**1,804,043**	2,064,672
– Others	**366,070**	830,340
	17,734,847	14,538,496

COMPANY

Financial assets	**2013**	2012
Loans and receivables		
– Dividends receivable from subsidiaries	**2,482,348**	2,295,550
– Advances to subsidiaries	**1,372,791**	1,337,422
– Cash and bank balances	**56,698**	20,724
	3,911,837	3,653,696

Financial liabilities	**2013**	2012
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	**1,520,034**	838,435
– Guaranteed senior notes	**–**	561,539
– Convertible bonds – host debts	**8,332**	7,183
– Others	**12,332**	7,009
	1,540,698	1,414,166

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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 a 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

	2013		2012	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Guaranteed senior notes	**–**	**–**	561,539	544,914
Convertible bonds – host debts	**8,332**	**9,008**	7,183	6,712
Derivative financial asset (note 34)	**–**	**–**	74,608	74,608

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Asset measured at fair value:

Group

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Derivative financial asset (Note 34)	–	–	74,608	74,608

The Group did not have any financial asset measured at fair value as at 31 December 2013.

The movements in fair value measurements in Level 3 during the year are as follows:

	2013	2012
Derivative financial asset		
At 1 January	**74,608**	54,027
Addition	**–**	–
Total gains recognised, net (Note 6)	**–**	20,524
Settlement	**(75,513)**	–
Exchange realignment	**905**	57
At 31 December	**–**	74,608

During 2013, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2012: Nil).

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value:

The Group did not have any financial liability measured at fair value as at 31 December 2013 and 2012.

Liabilities for which fair value are disclosed:

Group and company

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Convertible bonds – host debts	**–**	**–**	**9,008**	**9,008**

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Guaranteed senior notes	–	–	544,914	544,914
Convertible bonds – host debts	–	–	6,712	6,712
	–	–	551,626	551,626

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44. 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 as of 31 December 2012 was a forward held by the Group for a 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.

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 30.

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	
	2013	2012	**2013**	2012
	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	**(70,184)**	(50,941)	**–**	–
- 50 basis points	**70,184**	50,941	**–**	–
Changes in variables – HK$ interest rate				
+ 50 basis points	**(4,731)**	(4,192)	**(4,731)**	(4,192)
- 50 basis points	**4,731**	4,192	**4,731**	4,192
Changes in variables – US$ interest rate				
+ 50 basis points	**(2,869)**	–	**(2,869)**	–
- 50 basis points	**2,869**	–	**2,869**	–

44. 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$"), Hong Kong dollars ("HK$") and Australian dollars ("AUD").

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$, the HK$ and the AUD 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	
	2013	2012	**2013**	2012
	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%	**(28,352)**	(26,958)	**(28,652)**	(27,135)
- 5%	**28,352**	26,958	**28,652**	27,135
Changes in exchange rate of HK$ against Renminbi				
+ 5%	**(44,513)**	(41,444)	**(44,516)**	(41,449)
- 5%	**44,513**	41,444	**44,516**	41,449
Changes in exchange rate of AUD against Renminbi				
+ 5%	**3,698**	(2,331)	**–**	–
- 5%	**(3,698)**	2,331	**–**	–

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

44. 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 25. 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 2013.

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	
	2013	2012	**2013**	2012
Financial assets				
Derivative financial asset	**–**	74,608	**–**	–
Loans and receivables				
– Dividends receivable from subsidiaries	**–**	–	**2,482,348**	2,295,550
– Advances to subsidiaries	**–**	–	**1,372,791**	1,337,422
– Other receivables	**503,816**	1,409,084	**–**	–
– Trade receivables	**35,503**	31,121	**–**	–
– Cash at banks	**2,938,377**	2,027,316	**56,670**	20,710
	3,477,696	3,542,129	**3,911,809**	3,653,682

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.

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

44. 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:

GROUP

	2013					
	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	30,115	1,073,547	5,197,015	11,753,615	1,546,422	19,600,714
Convertible bonds	–	267	9,171	–	–	9,438
Trade payables	233,651	140,623	1,168,910	260,859	–	1,804,043
Others	15,933	70,693	149,303	111,626	6,450	354,005
	279,699	1,285,130	6,524,399	12,126,100	1,552,872	21,768,200

	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

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

44. 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

	2013					
	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	–	5,287	1,202,972	230,049	109,663	1,547,971
Convertible bonds	–	267	9,171	–	–	9,438
Others	1,070	10,387	–	–	–	11,457
	1,070	15,941	1,212,143	230,049	109,663	1,568,866

	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

Management has assessed that the fair values of trade payables and others approximate to their carrying amounts largely due to the short term maturities of these instruments.

31 December 2013 (Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2013 and 31 December 2012.

As the Group is mainly engaged in the development of properties, 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.

Net debt includes interest-bearing bank and other borrowings, Guaranteed Senior Notes and the liability component (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:

	2013	2012
Interest-bearing bank and other borrowings (Note 30)	15,556,402	11,074,762
Convertible bonds – host debts (Note 33)	8,332	7,183
Guaranteed Senior Notes (Note 31)	–	561,539
Less: Cash and bank balances (Note 27)	(2,941,096)	(2,032,007)
Net debt	12,623,638	9,611,477
Equity attributable to owners of the parent	9,230,600	9,057,994
Non-controlling interests	322,755	704,340
Capital	9,553,355	9,762,334
Capital and net debt	22,176,993	19,373,811
Gearing ratio	57%	50%

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2014.