SOHO China Limited

Annual Report 2010

Stock Code : 410

创造CBD繁华 Building Downtown Propersity

The board (the "Board") of directors (the "Directors") of SOHO China Limited (the "Company" or "SOHO China") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010 (the "Year" or the "Period"), which had been prepared in accordance with the Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants and the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The 2010 audited consolidated annual results of the Group had been reviewed by the audit committee of the Company and approved by the Board on 2 March 2011.

For the year ended 31 December 2010, the Group achieved a turnover of RMB18,215 million, increased by 146% year over year, gross profit of RMB9,257 million and gross profit margin of 51%. Net profit attributable to equity shareholders of the Company was RMB3,636 million, increased by 10% year over year. Core net profit (excluding valuation gains on investment property) was RMB3,512 million, increased by 108% year over year.

The Board recommended the payment of a final dividend of RMB0.14 per share for the year ended 31 December 2010 subject to shareholders' approval at the forthcoming annual general meeting of the Company (the "AGM") to be held in May 2011.

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Chairman's Statement

During 2010, stormy conditions prevailed in China's real estate market. Starting from April 2010, the Chinese government issued a series of tightening policies aiming to curb the overheating and speculation in the residential property market and to ensure the healthy development of the real estate industry, including increasing the threshold for loans for the second house and restricting loans for the third house, and stepped up its efforts to enforce existing policies as well. In December 2010, Shanghai and Chongqing were designated as the pilot cities for collection of property tax with detailed implementation measures coming up in January 2011. To curb liquidity and ease inflation, the central bank raised the required reserve capital reserve ratio six times within 2010 and further twice in the beginning of 2011, and increased the deposit and loan interest rate three times since October 2010. Facing these measures and expecting more rigid policies in the future, the market responded promptly. In the second quarter of 2010, transaction volume dropped substantially and the skyrocketed housing price lost its momentum. As a result, some developers even reduced their annual sales targets with pessimistic perspectives of the second half of the year. Nevertheless, in the second half of the year, under pressure from liquidity and inflation, and out of uncertainty in the effectiveness of the government policies, the property market witnessed a strong rebound in transaction volume and price. By the end of the year, many developers had not only accomplished their annual sales targets, but also recorded historical high in contract sales.

In spite of such complicated and chaotic market conditions, SOHO China persisted in its unique business and operation model and expanded significantly in both sales and scale. In 2010, SOHO China's contract sales increased by 74% compared to that of 2009. Surpassed RMB10 billion in contract sales for the first time in 2009, the Company achieved another milestone with record high contract sales of RMB23.8 billion in 2010. The Galaxy SOHO project locked RMB2.77 billion contract sales within only three days after pre-sale launch in mid 2010 and recorded RMB14.6 billion contract sales by the end of the year, with 81% of total saleable GFA sold at an average selling price of approximately RMB70,000 per square meter. With such remarkable performance, the project ranked No.1 for the year in terms of contract sales among property projects in Beijing and the Company secured the sales championship among Beijing real estate developers for the second time consecutively. In addition, the completion and delivery of Sanlitun SOHO Phase II, comprising of four residential buildings and retail spaces with a total GFA of approximately 223,000 square meters, in 2010 contributed significantly to the Group's turnover in the year. Meanwhile, more diversified projects were added to the Company's land bank in Beijing. During the year, the Company acquired Danling SOHO in Zhongguancun, Beijing. The planned sales of this completed project will result in higher capital efficiency and quicker asset turnover.

Chairman's Statement

While making outstanding achievement in Beijing, SOHO China has also had remarkable development in Shanghai. Following the successful acquisition and leasing of The Exchange-SOHO, the Company launched the sales of the project during the year and recorded RMB3.8 billion contract sales, which ranked as the No.1 sales project in Shanghai. Adhering to its core strategy to develop commercial properties at prime locations, SOHO China acquired three more projects, namely SOHO on the Bund, Hongqiao SOHO and Fuxinglu SOHO in Shanghai. Within only two years, it acquired four big projects in four districts, setting a solid foundation for further expansion in the region. SOHO's unique business model was proved to be successful in Shanghai. The Company plans to speed up its development in Shanghai and expects that development projects in Shanghai will constitute half of its investments in the future.

While development and sales of commercial properties continues to be the Company's business model and core strategy, the Company intends to maintain its sales scale. Meanwhile, the Company is planning to gradually hold more investment properties. Apart from the Tiananmen South (Qianmen) project, Phase I of which has completed construction and commenced operation, the Company is also considering to hold Guanghualu SOHO II in Beijing, and SOHO on the Bund and Fuxinglu SOHO in Shanghai as investment properties. Situated at the most prime locations in city centers, these projects are non-replicable projects with immense value. Holding these investment properties will bring stable and steady cash flow, save huge taxes that are payable if the projects are sold, and allow the Company to benefit from significant upside derived from asset appreciation.

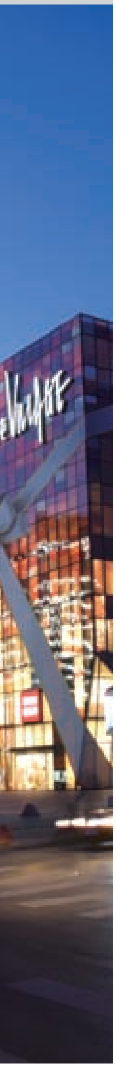
Looking into the year of 2011, taming inflation will continue to be the government's top priority. However, most of the cooling measures, ranging from more frequent rate hikes to purchase restrictions, are within market expectations. Property tax in Shanghai and Chongqing is expected to have limited impact on the market due to the low tax rate under the relevant implementation measures. The unexpected are those polices that restrict purchase and set price ceilings in residential property market, which effectively reduced the demand for residential properties in major cities. In particular, it takes away almost all investment demand for residential properties. In addition, the newly promulgated relocation regulations and the subsequent transition period for transition from the old to the new relocation regulations is expected to result in temporary shortage in land supply due to low efficiency. These measures will result in temporary shortage in both demand and supply in the residential property market and lead to price and volume stagnation. However, we expect these measures to be temporary measures aiming to generate immediate effects. Compared with the residential property market that is under the government's close scrutiny, the commercial property market remains nearly unaffected by the policies and may become the only property investment vehicle that attracts tremendous investment. Therefore, we expect to see a significant increase in commercial property prices.

In the next few years, social housing will emerge as the main stream product and is projected to take over 50% of market share. Only by then, will the existing restrictions on pricing and purchase be lifted by the government. The consequent 50% shrinkage in market share is likely to cause industry consolidation that may squeeze out the smaller developers. On the contrary, competition in the commercial property market is far less fierce. We do not expect a large number of residential developers to enter into the commercial property sector. Nevertheless, traditional shopping mall model will be challenged by the development of on-line shopping. Creative and innovative strategies need to be adopted to maintain market share. As for office building demand, especially those from small and medium sized enterprises, will remain strong and sustainable.

SOHO China will adhere to its commercial property business model of developing properties in prime locations in first-tier cities, as well as selling and holding commercial properties. We will prudently undertake each step of expansion, and enthusiastically embrace every opportunity. Truthfulness, unity and innovation are the core of SOHO China's philosophy in building and developing property towards creating material wealth. These core values constantly motivate all of SOHO China's pursuits, serving as the standards guiding our every word, action, and decision. The glories of both history and the future are made up by connecting the exhilarating moments of the present. We strongly believe that continuing to devote our focus to each and every step along the way is the key to welcoming an optimally prosperous future with utmost confidence and free of regrets.

Pan Shiyi
Chairman
2 March 2011

Business Review



During 2010, the Group achieved a total contract sales amount of RMB23,810 million, 74% higher than that of 2009. Contract sales area was 394,990 square meters (not including car parks), 27% higher than that of 2009, and the average selling price was RMB59,824 per square meter.

The Group's 2010 contract sales amount was mainly generated from the following projects: Galaxy SOHO, The Exchange – SOHO and SOHO Nexus Centre.

Project	**Contract sales amount during the Period** *(RMB'000)*	**Contract sales area* during the Period** *(sq.m.)*	**Average price* during the Period** *(RMB/sq.m.)*	**Total sellable area *** *(sq.m.)*	**Percentage of sellable area sold* by 31 Dec 2010**	**Contract sales amount by 31 Dec 2010** *(RMB'000)*
Galaxy SOHO	14,637,425	209,545	69,274	258,401	81%	14,637,425
The Exchange – SOHO	3,816,153	58,963	64,721	71,671	82%	3,816,153
SOHO Nexus Centre	3,550,108	77,748	45,365	82,167	95%	3,550,108
Others	1,806,170	48,733	36,332			
Total	**23,809,856**	**394,990**	**59,824**			

* Sellable area, contract sales area and average price exclude that of car parks in the projects.

Business Review

In 2010, the Group completed the development of Sanlitun SOHO Phase II with a total gross floor area ("GFA") of about 223,000 square meters. As at 31 December 2010, major properties under development are as follows, among which Phase I of Tiananmen South (Qianmen) is completed and held as investment property.

Project	Location	Type	GFA *(sq.m.)*	Group Interest *(%)*
Galaxy SOHO	Beijing	Retail, office	334,000	100%
Wang Jing SOHO	Beijing	Retail, office	500,000	100%
Danling SOHO	Beijing	Retail, office	43,000	100%
Guanghualu SOHO II	Beijing	Retail, office	167,000	100%
Tiananmen South (Qianmen)	Beijing	Retail	55,000	100%
Hongqiao SOHO	Shanghai	Retail, office	300,000	100%
SOHO on the Bund	Shanghai	Retail, office	189,000	61.506%
Fuxinglu SOHO	Shanghai	Retail, office	137,000	48.4761%*
Total			**1,725,000**	

* On 15 March 2011, the Group announced acquisition of further 31.5239% equity interest in the project company of Fuxinglu SOHO, increasing its equity interest in the project company to 80%.

MAJOR PROJECTS

Sanlitun SOHO

Sanlitun SOHO is located close to the second embassy district and the Workers' Stadium in Beijing. The site is in the popular Sanlitun entertainment district. With a total planned GFA of approximately 465,371 square meters, Sanlitun SOHO is one of the largest commercial and residential complexes available for sale in central Beijing. It comprises five office towers and four residential towers on top of shopping malls, which are linked by an outdoor plaza. Pre-sales of Sanlitun SOHO commenced on 12 July 2008. As at 31 December 2010, 98% of its sellable area (excluding car parks) was sold with an average price of RMB47,984 per square meter. The total contract sales amount was approximately RMB16,623 million. Phase I was completed in 2009 and phase II with a total GFA of approximately 223,000 square meters was completed and delivered in 2010.

Guanghualu SOHO II

Guanghualu SOHO II is located in the heart of the Beijing Central Business District, opposite to the Guanghualu SOHO project. The total planned GFA is approximately 167,000 square meters. The project is currently under construction.

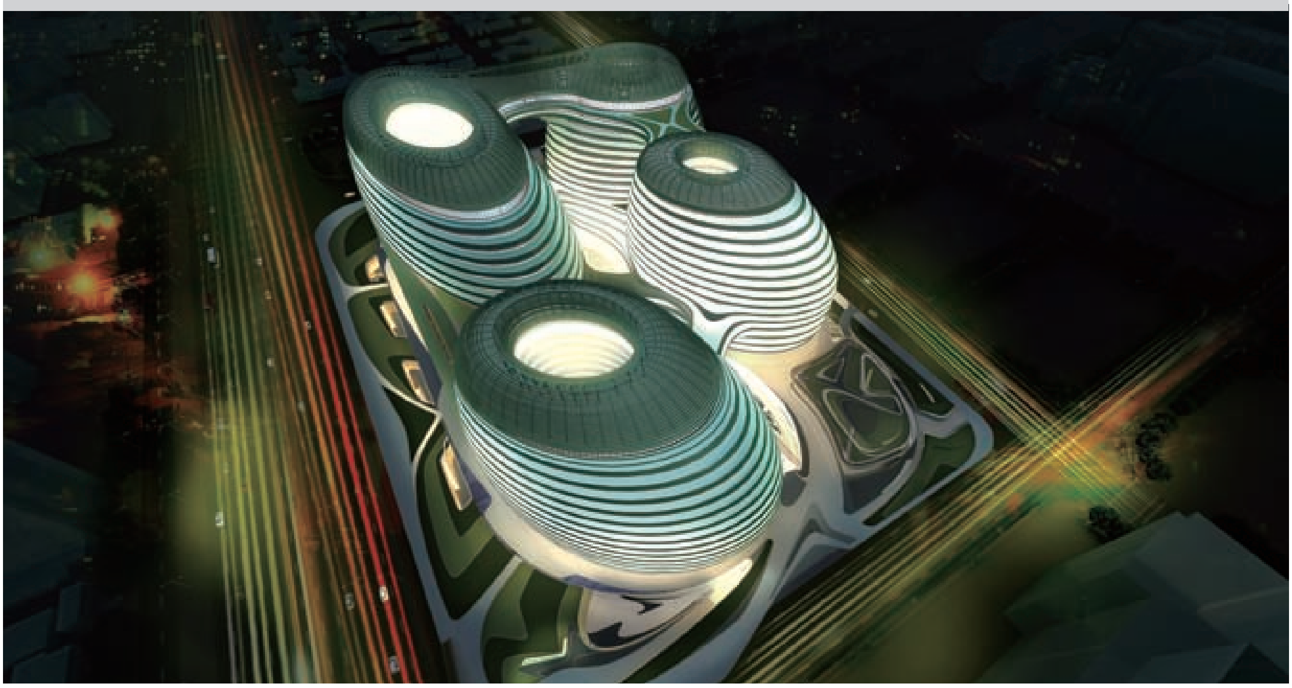
■ Sanlitun SOHO

Business Review

Galaxy SOHO

Galaxy SOHO, originally named Chaoyangmen SOHO Phase III, has a total GFA of approximately 334,000 square meters. Designed by Zaha Hadid Architects, Galaxy SOHO will become the iconic commercial development within the East Second Ring Road of Beijing.

Galaxy SOHO – Interior



Galaxy SOHO – Exterior

The Company launched pre-sales of Galaxy SOHO on 26 June 2010 and achieved contract sales amount of RMB4,669 million for the first five days. As at 31 December 2010, 81% of its sellable area (excluding car parks) was sold, and the project's total contract sales amount was approximately RMB14,637 million. The average selling price of office area and retail area were approximately RMB62,300 per square meter and RMB81,000 per square meter respectively. The project is now under construction and is expected to be completed in 2012.

Tiananmen South (Qianmen)

The project is located at Qianmen Avenue and the area east to the avenue, right on the south of Tiananmen Square. The Group owns retail space of approximately 54,691 square meters. Phase I of approximately 22,763 square meters, fully built, is located on Qianmen Avenue. Phase II of approximately 31,928 square meters, now largely under construction, is located on the east side of Qianmen avenue.

The Group intends to keep its entire interest in the Tiananmen South project as investment property. Phase I is now under leasing operation.

Tiananmen South (Qianmen)

Business Review

The Exchange – SOHO

The Exchange – SOHO is located at No.1486 Nanjing Road West, Shanghai, in the heart of the Nanjing Road West Commercial Business District. It is in close proximity to a concentration of five-star hotels, high-end shopping centers and two metro stations (Line 10 and planned Line 4), as well as Shanghai's main east-west thoroughfare – Yan'an Elevated Highway. With a height of 217 meters, the project is among Shanghai's tallest skyscrapers. It is comprised of a total above-ground GFA of 71,671 square meters of commercial space and a total below-ground GFA of 8,838 square meters for parking and storage.

The Company commenced the sale of this project in early 2010. On 29 December 2010, the top floor of the project was sold through auction for approximately RMB121 million, representing a record-high average selling price of about RMB100,372 per square meter for Chinese office property sales. As at 31 December 2010, 82% of its sellable area (excluding car parks) was sold with a total contract sales amount of approximately RMB3,816 million, and an average selling price of approximately RMB64,721 per square meter.

■ The Exchange – SOHO

SOHO Nexus Centre

SOHO Nexus Centre is located at the East Third Ring Road in Beijing. It is a grade-A office and retail building with a total GFA of 103,340 square meters.

The Group commenced the sale of SOHO Nexus Centre on 20 January 2010. As at 31 December 2010, 95% of the total sellable area (excluding car parks) had been sold with an average selling price of RMB45,365 per square meter. The total contracted sales amount was RMB3,550 million.

SOHO Nexus Centre

Business Review

Wangjing SOHO

The project is to be developed into large-scale retail and office properties of a total GFA of approximately 500,000 square meters. Wangjing area is Beijing's most developed high-end residential area, which is noticeably lacking in large-scale office and commercial facilities. The development of Wangjing SOHO will complete and add balance to the overall urban master plan for Wangjing. There is excellent accessibility to the project, with two subway lines and one light rail nearby and easy access to the airport expressway. This development, zoned to stand about 200 meters high, will be the first landmark and point of access to central Beijing from the airport expressway. Wangjing area is also home to the China headquarters of many multinational companies, including Daimler, Siemens, Microsoft, and Caterpillar whose headquarters are situated nearby.

Wangjing SOHO is designed by Zaha Hardid Architects. The planning and designing work has completed.

Wangjing SOHO

ACQUISITION OF NEW PROJECTS

During 2010, the Group acquired four projects with a total consideration of approximately RMB6,179 million. The total GFA of these acquisitions were approximately 669,000 square meters. Details are as follows:

Project	Acquisition Time	GFA *(sq.m.)*	Consideration *(RMB million)*	Interest
2010				
SOHO on the Bund	June 2010	189,000	2,250	61.506%
Hongqiao SOHO	August 2010	300,000	1,562	100%
Fuxinglu SOHO	October 2010	137,000	1,212*	48.4761%*
Danling SOHO	December 2010	43,000	1,155	100%
Total		**669,000**	**6,179**	

* The consideration was calculated based on the net assets of the project company at the acquisition date. On 15 March 2011, the Group announced acquisition of further 31.5239% equity interest in the project company of Fuxinglu SOHO, increasing its equity interest in the project company to 80%.

Business Review

SOHO on the Bund

On 11 June 2010, the Company announced the acquisition of the Bund 204 Land, which was later named as SOHO on the Bund. The project has a total site area of approximately 22,462 square meters, with a planned GFA of approximately 189,000 square meters, of which the above ground GFA will be approximately 112,312 square meters. The land use rights are for commercial, financial, office and hotel use. The Group acquired 90% interests of T&T International Investment Corporation ("T&T International"), the major shareholder of the project company with a total consideration of RMB2,250 million, and consequently holds 61.506% interest of the project company. T&T International is entitled to a total planned GFA of approximately 131,000 square meters, including 69,000 square meters above-ground office and retail areas and 12,000 square meters underground retail area.

SOHO on the Bund is framed by Yong'an Road to the east, Xin Yong'an Road to the south, with East Second Zhong Shan Road to the west, and Xinkaihe North Road and Renmin Road to the north. On the treasured premium strip of the Bund, right next to Shanghai's most famous City God Temple, and beside the Bund's multi-dimensional transportation hub and yacht pier, the project area possesses a highly developed and lively commercial atmosphere. The project area's surrounding infrastructure is especially ideal, with convenient transportation leading to everywhere.

The planning and design work is almost completed, and the construction work has commenced.

Hongqiao SOHO

On 13 August 2010, the Group successfully bidded for the commercial land of Linkong Plot 15 situated right next to the Shanghai Hongqiao transportation hub for RMB1,561,720,000. The project was later named as Hongqiao SOHO. The land is of a site area of 86,164 square meters with a planned total above ground GFA of 215,410 square meters. The Group estimates that, after completion of construction, the total GFA for the project will be approximately 300,000 square meters.

Hongqiao SOHO is situated at Shanghai Hongqiao Linkong Economic Zone and is right next to the Shanghai Hongqiao transportation hub, which, being the coverage point of modern means of transportation such as airplane, high speed railway and subway, is the world's largest transportation hub and currently Shanghai's most vibrant area. With the successive openings of high speed railways, it is connected with the most affluent cities of the Yangtze River Delta – it takes 17 to 42 minutes to travel from Hongqiao to cities such as Suzhou, Wuxi, Hangzhou and Nanjing – making the Shanghai Hongqiao transportation hub and its nearby areas an area with most development potential in China.

The project is in the process of obtaining the permit for construction commencement.

Fuxinglu SOHO

On 12 October 2010, the Group acquired 48.4761% equity interest of the project company of Land Lot No. 43 in Shanghai Lu Wan District (later named as Fuxinglu SOHO) at a consideration of approximately RMB1.21 billion. On 15 March 2011, the Group announced its further acquisition of 31.5239% equity interest of the project company at a consideration of approximately RMB788 million, which increases the Group's interest in the project company to 80%. The Group will discuss the possible acquisition of the remaining 20% equity interest in the project company at the same consideration calculated under the cooperative framework agreement.

Fuxinglu SOHO is situated in the center of the Huai Hai Road commercial district with direct access to subway line 10 and subway line 13 (under construction). It is situated next to Huai Hai Road Central, the most vibrant and cosmopolitan commercial street in Shanghai, and Shanghai Xintiandi that has the most lively commercial atmosphere. The land is for commercial and office use, with a total planned GFA of approximately 137,442 square meters, including 72,467 square meters above ground office and commercial area and 64,975 square meters underground commercial area and auxiliary car parks. The project is now under construction with about half underground construction completed.

Danling SOHO

On 30 December 2010, the Group made the acquisition of Zhongguan Building (later named as Danling SOHO) at a consideration of approximately RMB1.16 billion. The building has an estimated total GFA of 42,638 square meters, including 31,031 square meters sellable office area. The majority of construction of the building has been completed and full completion is estimated in the second half of 2011.

Danling SOHO is situated at the center of Zhongguancun, a dynamic commercial center in Beijing that is known as the most advanced high-tech center of China. It is in close proximity to ZhongGuanCun SOHO, another project of the Group in Zhongguancun.

Corporate Social Responsibility

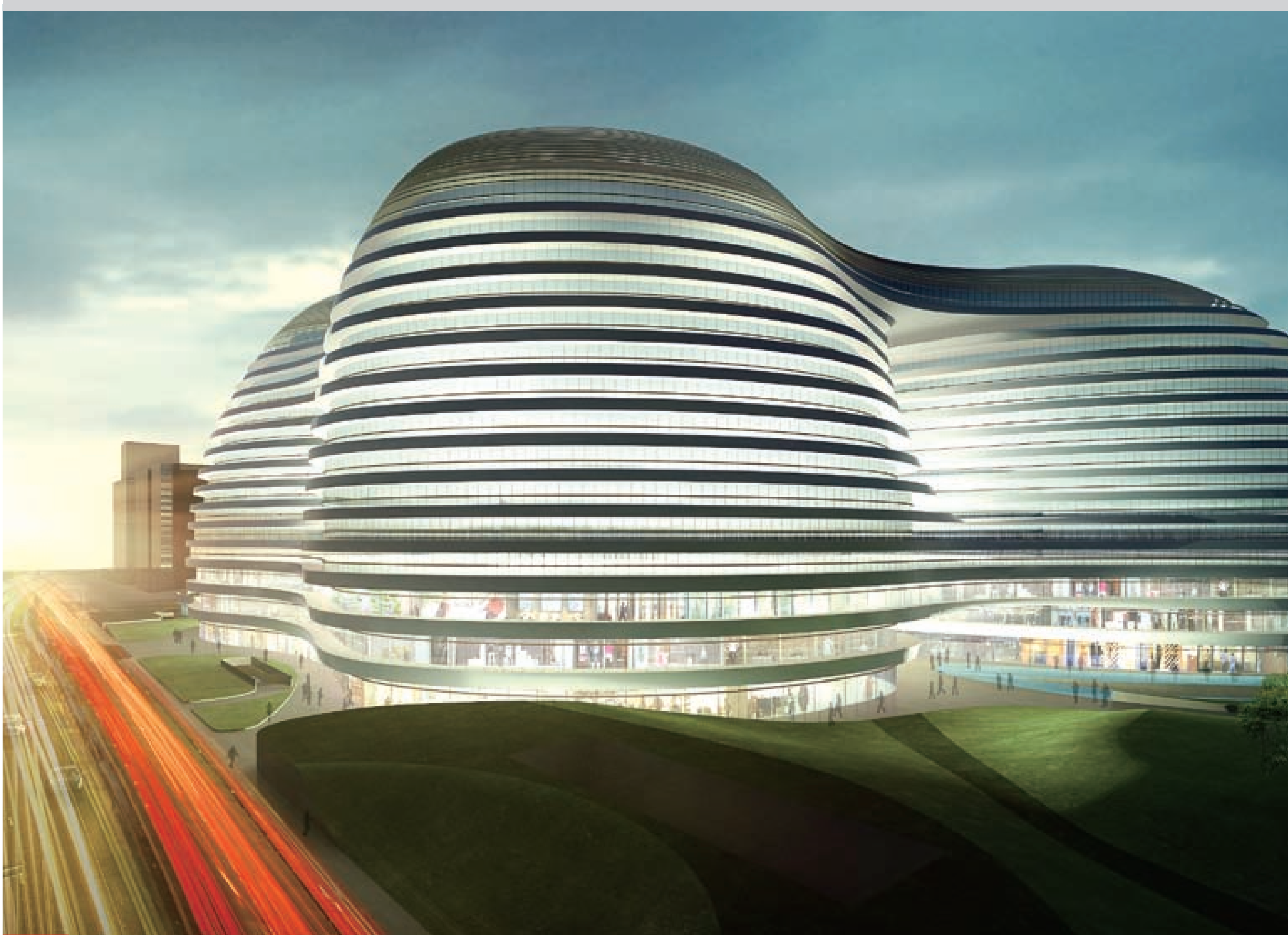
SOHO China Foundation, a public welfare charity organization invested, managed and operated solely by the Company, is committed to stimulate spiritual advancement as a means to promoting the development of social values. In addition to the continuous creation of tremendous wealth for society and its shareholders, the Company, with its donations and the participation of its staff members, aims to enrich our growth with spiritual wealth by staging various charity and subsidy programs through the SOHO China Foundation. Apart from monetary donations, all our staff members are encouraged to participate in each of our charity programs; an act that not only requires financial contribution, but also takes time, affection and wisdom to serve and give back the community.

In 2010, the SOHO China Foundation continued to donate to two programs: the Children's Virtues Project and the Bathroom Construction Campaign for schools in impoverished areas. Further to the successful trial promotion of the Children's Virtues Project in Tianshui region, Gansu in 2008, the SOHO China Foundation expanded the training program to include teachers. In 2010, the Children's Virtues Project was successfully expanded to Xi An. To date, a total of 950 teachers and 220 school principals have attended the education training program, benefiting about 100,000 children. Under the 2011 plan, 360 teachers will participate in training that will benefit even more children.

Given the rudimentary conditions of rural school washrooms, some on the verge of collapse, in 2008 the Company initiated the Children's Virtues Project – Bathroom Construction Campaign for schools in the Tianshui region. Currently, the construction of washrooms for 45 schools has been completed. About 35,000 pupils are using the safe and clean washrooms.

As a pro-active frontrunner in performing social responsibility, the Company will constantly dedicate itself, advocate to its staff members, and call for increased social resources to contribute to the cause of public welfare.

Management Discussion & Analysis



Turnover

Turnover (net of business tax) for 2010 was RMB18,215 million, representing an increase of RMB10,802 million or 146% as compared with RMB7,413 million in 2009. This was mainly attributable to the increase in the area booked in 2010. Area booked during the Period was 409,106 square meters (not including car parks), representing an increase of 131% compared to 177,483 square meters in 2009. In 2010, average price of booked area (not including car parks) was RMB44,524 per square meter, which is 9% higher than RMB40,956 per square meter in 2009. Turnover for 2010 mainly came from Sanlitun SOHO, ZhongGuanCun SOHO, Chaoyangmen SOHO Phase II, SOHO Nexus Centre, The Exchange-SOHO and Beijing SOHO Residences.

Cost of properties sold

Cost of properties sold for 2010 was RMB8,958 million, RMB5,402 million higher than RMB3,556 million in 2009, mainly attributable to the increase in the area booked.

Gross profit

Gross profit for 2010 was RMB9,257 million, representing an increase of RMB5,400 million or 140% as compared with RMB3,857 million in 2009. Gross profit margin for 2010 was 51%, as compared to 52% in 2009.

Selling expenses

Selling expenses for 2010 was RMB547 million, representing an increase of RMB285 million or 109% over RMB262 million in 2009. The increase was mainly the result of the tremendous growth in booked area and turnover in 2010. Selling expenses as a percentage of turnover has decreased from 3.5% in 2009 to 3% in 2010.

Management Discussion & Analysis

Administrative expenses

Administrative expenses for 2010 was RMB205 million, representing an increase of RMB20 million or 11% over RMB185 million in 2009. The slight increase in administrative expenses was mainly attributable to scale expansion of the Group.

Financial income

Financial income for 2010 was RMB224 million, representing a decrease of RMB10 million or 4% over RMB234 million in 2009. The decrease in financial income was mainly attributable to the zero net gain on financial derivatives.

Financial expenses

Financial expenses for 2010 was RMB292 million, representing an increase of RMB145 million or 99% over RMB147 million for 2009. The increase in financial expenses was mainly attributable to the interest expenses of the convertible bonds (which were issued in July 2009 and only incurred interest expenses of approximately half year for 2009), and the interest expenses of new loans borrowed during the Year.

Valuation gains on investment property

Valuation gains on investment property for 2010 is RMB165 million, attributable to the 22,454 square meters of Tiananmen South (Qianmen) project completed in 2009. This project's valuation gains in 2009 was RMB2,144 million, representing a huge appreciation between market value and cost.

Sanlitun SOHO – Interior

Profit before taxation

Profit before taxation for 2010 was RMB8,700 million, representing an increase of RMB3,041 million or 54% as compared with RMB5,659 million in 2009. The increase was mainly due to the increase of gross profit during the Period.

Income tax

Income tax of the Group is comprised of the PRC Corporate Income Tax and the Land Appreciation Tax. The PRC Corporate Income Tax for 2010 was RMB1,903 million, representing an increase of RMB721 million as compared with RMB1,182 million in 2009. Land Appreciation Tax for 2010 was RMB3,025 million, representing an increase of RMB1,943 million as compared with RMB1,082 million in 2009. Income tax increased as profit increased.

Net profit attributable to the equity holders of the Company

Net profit attributable to the equity shareholders of the Company for 2010 was RMB3,636 million, representing an increase of RMB336 million as compared with RMB3,300 million in 2009. Core net profit, not including valuation gains on investment property, was RMB3,512 million, representing an increase of 108% as compared with that of 2009.

Cash and cash equivalents

Cash and cash equivalents of the Group as at 31 December 2010 was RMB17,725 million, representing an increase of RMB8,483 million as compared with RMB9,242 million as at 31 December 2009. In 2010, cash inflow through property sales and bank loans was mainly used to pay for land and project acquisition, construction, working capital and operating expenses.

Total current assets and liquidity ratio

Total current assets of the Group as at 31 December 2010 were RMB38,219 million, representing an increase of RMB5,890 million or 18% over RMB32,329 million as at 31 December 2009. Liquidity ratio (total current assets/total current liabilities) decreased from 2.70 as at 31 December 2009 to 2.03 as at 31 December 2010.

Management Discussion & Analysis

Convertible bonds, bank loans and collaterals

On 2 July 2009, the Company issued a five-year HKD2,800 million convertible bonds (the "Convertible Bonds"), bearing interest at the rate of 3.75% per annum. Each bond will be convertible on or after 11 August 2009 up to and including 25 June 2014 into ordinary shares of the Company at an initial conversion price of HKD5.88. As at 31 December 2010, the conversion price was adjusted to HKD5.60 per share as a result of the 2009 final dividend and 2010 interim dividend declared in the Period. As at 31 December 2010, the carrying amounts of liability and equity component of the Convertible Bonds were RMB1,985 million and RMB514 million respectively.

As at 31 December 2010, the loan balance of the Group was RMB8,633 million, of which RMB925 million is due in September 2022, RMB1,900 million is due in September 2011, RMB1,800 million is due in March 2012, USD loan equivalent to RMB1,523 million is due in August 2012, USD loan equivalent to RMB1,437 million is due in June 2014, USD loan equivalent to RMB367 million is due in October 2014 and HKD loan equivalent to RMB681 million is due in March 2011. As at 31 December 2010, bank loans of RMB6,429 million of the Group were collateralized by the Group's land use rights, properties and restricted bank deposits or guaranteed by certain subsidiaries of the Group.

As at 31 December 2010, the Group had Convertible Bonds and bank loans of RMB10,618 million, equivalent to 22.2% of the total assets (2009: 21.9%). Net debt (bank loans + Convertible Bonds – cash and cash equivalents and bank deposits) to equity ratio was -57% (2009:-13%).

Interest rate risk

The Group's bank loans carried floating interest rate based on the base lending rate of the People's Bank of China ("PBOC") and London Interbank Offered Rate ("LIBOR"). PBOC raised the base interest rate for RMB loans by 0.25% each in October and December of 2010 and in February 2011. LIBOR increased from 0.25% at the beginning of the Year to 0.30% at the end of the Year. Our interest rate risk is mainly from the floating interest rate of loans, the increase of which may result in an increase in our financing cost.

Foreign currency risk

The Group's operations are mostly conducted in RMB. In 2010, the medium exchange rate of 100 USD against RMB decreased from RMB682.82 at the beginning of the Year to RMB662.27 at Year end. In case of substantial change of exchange rate, the foreign currency of the Group will face exchange loss risk.

Contingent liabilities

As at 31 December 2010, the Group has entered into agreements with certain banks to provide guarantees in respect to mortgage loans provided to buyers of property units. The amount of guaranteed mortgage loans relating to such agreements was RMB6,587 million as at 31 December 2010 (RMB3,702 million as at 31 December 2009).

Capital commitments

As at 31 December 2010, the Group's contracted capital commitments for properties under development was RMB4,819 million (RMB1,083 million as at 31 December 2009). The amount mainly comprised contracted property development cost, land cost and acquisition consideration.

Employees and remuneration policy

As at 31 December 2010, the number of employees was 2,096 (including 320 employees for sales and leasing Beijing and Shanghai, 183 employees for Commune by the Great Wall and Boao Canal Village and 1200 employees for the property management company).

The remuneration of our employees includes their basic salary and bonuses. Bonuses are determined on a quarterly basis based on performance reviews. Remuneration of sales staff primarily is comprised of commissions linked to sales performance. Pursuant to the terms of the Share Option Scheme adopted on 14 September 2007, the Company also granted share options to various directors and employees as part of their remuneration packages on 14 September 2007, 30 January 2008 and 30 June 2008.

During the Period, Mr. Wang Shaojian resigned as Executive Director and Chief Financial Officer with effect from 31 May 2010. Ms. Tong Ching Mau was appointed as Executive Director and Chief Financial Officer with effect from 24 December 2010. The senior management team size was increased to eleven people.

Sanlitun SOHO – Piazza

Directors' Report

Principal activities

The principal activity of the Company is investment in real estate development. Details of the principal activities of the Group are set out in the section headed "Business review" of this report. There were no significant changes in the nature of the Group's principal activities during the Year.

Results and dividends

The Group's profit for the year ended 31 December 2010 and the financial status of the Company and the Group as at that date are set out in the audited consolidated financial statements.

The Board has approved a resolution to recommend the payment of a final dividend of RMB 0.14 per share for the year ended 31 December 2010 (2009: RMB0.20 per share).

Financial information summary

A summary of the published financial results of the Group for the last five financial years is set out below. This summary does not form part of the audited financial statements.

Consolidated income statement for the years ended 31 December:

	2010	2009	2008	2007	2006
RMB'000					
Turnover	**18,215,091**	7,413,451	3,121,375	6,953,580	1,740,312
Profit before taxation	**8,700,068**	5,658,710	1,149,159	3,756,790	787,197
Income tax	**(4,928,485)**	(2,264,020)	(726,219)	(1,769,382)	(377,467)
Profit for the year	**3,771,583**	3,394,690	422,940	1,987,408	409,730
Attributable to:					
Equity shareholders of the Company	**3,636,156**	3,300,178	399,073	1,965,660	340,852
Non-controlling interests	**135,427**	94,512	23,867	21,748	68,878
Basic earnings per share (RMB)	**0.701**	0.636	0.076	0.477	0.091
Diluted earnings per share (RMB)	**0.673**	0.625	0.076	0.477	0.091
Interim dividend per share (RMB)	**0.12**	0.00	0.00	0.00	0.00
Final dividend per share (RMB)	**0.14**	0.20	0.10	0.10	0.00

Consolidated balance sheet as at 31 December:

	2010	2009	2008	2007	2006
RMB'000					
Non-current assets	**9,711,396**	5,427,663	1,572,874	2,071,746	798,502
Current assets	**38,219,036**	32,328,658	24,498,210	21,386,429	7,631,139
Current liabilities	**18,853,899**	11,958,573	8,846,894	7,685,385	6,039,360
Net current assets	**19,365,137**	20,370,085	15,651,316	13,701,044	1,591,779
Total assets less current liabilities	**29,076,533**	25,797,748	17,224,190	15,772,790	2,390,281
Non-current liabilities	**9,097,165**	8,355,221	3,099,303	1,154,429	867,501
Net assets	**19,979,368**	17,442,527	14,124,887	14,618,361	1,522,780
Share capital	**107,485**	107,485	107,485	108,352	79,642
Reserves	**19,135,247**	17,116,130	13,880,557	14,347,480	1,280,541
Total equity attributable to equity shareholders of the Company	**19,242,732**	17,223,615	13,988,042	14,455,832	1,360,183
Non-controlling interests	**736,636**	218,912	136,845	162,529	162,597
Total equity	**19,979,368**	17,442,527	14,124,887	14,618,361	1,522,780

Share capital and share options

Details of changes in the Company's share capital and share options during the Year together with the reasons therefore, and details of the pre-IPO share option scheme approved by the shareholders of the Company on 14 September 2007 (the "Pre-IPO Share Option Scheme") and the post-IPO share option scheme approved by the shareholders of the Company on 14 September 2007 (the "Share Option Scheme") are set out in Notes 22 and 24 to the audited consolidated financial statements.

Reserves

Details of changes in the reserves of the Company and the Group during the Year are set out in Note 22 to the audited consolidated financial statements and the consolidated statements of changes in equity.

Details of the distributable reserves of the Company as at 31 December 2010 are set out in Note 22 to the audited consolidated financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws of the Cayman Islands.

Directors' Report

Property and equipment

Details of changes in property and equipment of the Group during the Year are set out in Note 11 to the audited consolidated financial statements.

Directors

The Directors during the Year and up to the date of this report are:

Executive Directors
Mr. Pan Shiyi *(Chairman)*
Mrs. Pan Zhang Xin Marita *(Chief Executive Officer)*
Ms. Yan Yan *(President)*
Mr. Wang Shaojian, Sean *(Chief Financial Officer)*
(Resigned on 31 May 2010)
Ms. Tong Ching Mau *(Chief Financial Officer)*
(Appointed on 24 December 2010)

Independent non-executive Directors
Dr. Ramin Khadem
Mr. Cha Mou Zing Victor
Mr. Yi Xiqun

In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association, Mrs. Pan Zhang Xin Marita and Mr. Cha Mou Zing Victor shall retire by rotation, and being eligible, offer themselves for re-election at the forthcoming AGM.

In accordance with Article 86(3) of the Company's Articles of Association, Ms. Tong Ching Mau shall hold office until the forthcoming AGM and being eligible, offer herself for re-election at the forthcoming AGM.

Each of Mr. Pan Shiyi, Mrs. Pan Zhang Xin Marita and Ms. Yan Yan has entered into a service contract with the Company for a term of three years commencing from 1 January 2011, which may be terminated by either party by serving not less than one month's prior written notice. Ms. Tong Ching Mau has entered into a service contract with the Company for a term of three years commencing from 24 December 2010, which may be terminated by either party thereto giving to the other party not less than one month's prior written notice.

Each of the independent non-executive Directors has entered into the appointment letters with the Company for a term commencing from 1 January 2011 to 31 December 2011, which may be terminated by either party thereto giving to the other party not less than three month's prior notice in writing.

Same as disclosed above, no Director standing for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Biographies of Directors and members of senior management

Executive Directors

Mr. Pan Shiyi

Chairman of the Board

Mr. Pan Shiyi, aged 47, is an executive Director and Chairman of the Board. Mr. Pan co-founded Redstone Industry Co., Ltd., the predecessor of the Company, in 1995. Since then he has led, together with his wife, Mrs. Pan Zhang Xin Marita, the development of all of the Company's projects. Before that, Mr. Pan co-founded Beijing Vantone Co. Ltd. in 1992.

Mr. Pan was selected as one of the "Top Ten Influential Figures in Real Estate Industry" by sina.com in 2004 and 2006, one of the "25 most influential business leaders" in China by Fortune (China) Magazine in 2005, deputy to Beijng's People's Congress in 2007, Ernst & Young Entrepreneur of the Year China 2008 and "Real Estate Person of the Year" by sina.com in 2009 and 2010.

Mrs. Pan Zhang Xin Marita

Chief Executive Officer

Mrs. Pan Zhang Xin Marita, aged 46, is an executive Director and the Chief Executive Officer of the Company. Mrs. Zhang co-founded Redstone Industry Co., Ltd., the predecessor of the Company, in 1995. Since then she has led, together with her husband Mr. Pan Shiyi, the development of all of the Company's twenty-one projects.

Mrs. Zhang was selected by the Davos World Economic Forum as a Young Global Leader in 2005. In recognition of Mrs. Zhang's efforts in promoting the development of architecture in Asia, Mrs. Zhang was awarded the "Special Prize to an Individual Patron of Architectural Award" at la Biennale di Venezia in 2002. She was named among the "World's 100 Most Powerful Women" by Forbes Magazine in 2008 and was named one of the Top 50 Women in World Business by Financial Times Newspaper in 2009 and 2010. She had also spoken at various forums including the China Business Summit 2003, World Economic Development Declaration 2003, the Fortune Global Forum 2005 and the World Economic Forum in 2008, 2009 and 2010.

Ms. Yan Yan

President

Ms. Yan Yan, aged 47, is an executive Director and the Company's President. She is responsible for the business development, budget control and overall management of the Company. Ms. Yan joined the Company in December 1996 and had acted as Chief Operating Officer and Chief Financial Officer prior to her present position. Ms. Yan received a Bachelor of Civil Engineering degree from Tianjin University in 1986. She has seventeen years of relevant experience in the real estate development industry in China.

Directors' Report

Ms. Tong Ching Mau

Chief Financial Officer

Ms. Tong Ching Mau, aged 40, was appointed as the executive Director and the Chief Financial Officer on 24 December 2010. Ms. Tong has been with the Company for more than eight years. She acted as the director of corporate finance and investor relations and then financial controller prior to her promotion as the Chief Financial Director. Ms. Tong is responsible for financial management, investor relations and corporate finance of the Company. Prior to joining the Company in 2002, she worked in the investment banking division of Credit Suisse First Boston in New York. She received a Master of Business Administration degree from Yale University, and a Master and a Bachelor degree of Economics from Fudan University in Shanghai.

Independent non-executive Directors

Dr. Ramin Khadem

Dr. Ramin Khadem, aged 66, is an independent non-executive Director. He is a member of the Board of Trustees of the International Space University, Strasbourg, France. He is a member of the board of the International Institute of Space Commerce, a member of the advisory board of ManSat Ltd., a company that serves the needs of the international space industry, as well as Near Earth L.L.C., an investment bank with a focus on the satellite, media and telecommunications clients and investors. He is also Chairman of Odyssey Moon Ltd, a lunar enterprise business. Dr. Khadem served as an executive director of Inmarsat Ventures Limited (formerly known as Inmarsat Ventures Plc.) ("Inmarsat") between October 2000 and July 2004, and also as an executive director of Inmarsat Group Holdings Limited between December 2003 and July 2004 where he was responsible for the overall financial management and performance of the Inmarsat Group. Since 1993, he had been acting as the Chief Financial Officer of Inmarsat. Before this, he had held several other posts in Inmarsat, including those of financial director, financial manager and executive officer. Dr. Khadem graduated from the University of Illinois with a Bachelor of Science degree in electrical and mechanical engineering and from McGill University with a Ph.D. degree in Economics.

Mr. Cha Mou Zing Victor

Mr. Cha Mou Zing Victor, aged 61, is an independent non-executive Director. He is the Deputy Chairman and Managing Director of HKR International Limited (a company listed on the Stock Exchange, Stock Code 480) and an alternate independent non-executive director of New World Development Company Limited (a company listed on the Stock Exchange, Stock Code 0017). He is also a member of the Chinese People's Political Consultative Committee of Zhejiang Province and a council member of the Hong Kong Polytechnic University. Mr. Cha graduated from Stanford University with an MBA degree and University of Wisconsin with a Bachelor of Science degree.

Mr. Yi Xiqun

Mr. Yi Xiqun, aged 63, is an independent non-executive Director. He is the Chairman of Beijing Enterprises Holdings Limited (a company listed on the Stock Exchange, Stock Code 392). He graduated from the Beijing Chemical Institute in 1975 and later obtained a postgraduate degree in economics and management engineering from Tsinghua University. From 1986 to 1987, Mr. Yi was in charge of the Beijing Municipal Government Economic Structure Reform Committee and from 1987 to 1991, he served as the Chief of the Xicheng District of Beijing. Mr. Yi was an assistant to the Mayor of Beijing as well as Director of the Economic and Foreign Trade Commission of Beijing Municipality and the Management Committee of the Beijing Economic and Technology Development Zone. Mr. Yi is an independent non-executive director of China Merchants Bank (a company listed on the Stock Exchange, Stock Code 3968). He is also the vice chairman of the Hong Kong Chinese Enterprises association and Chairman of Capital Enterprises Association. Mr. Yi has in-depth knowledge and a wealth of experience in macroeconomic and microeconomic management.

Senior Management

Ms. Lai Chor Shan

Vice President

Ms. Lai Chor Shan, aged 38, is our General Counsel and oversees legal matters of the Company. Ms. Lai joined the Company in May 2008. Ms. Lai graduated from the University of Hong Kong with a Bachelor of Laws (Honours) in 1995 and a Postgraduate Certificate in Laws (with Distinction) in 1996. She received a Bachelor of Civil Law from the University of Oxford in 1997. Ms. Lai is admitted as a solicitor in Hong Kong and England & Wales. Before joining the Company, Ms. Lai practiced law in two major international law firms for over ten years.

Mr. Wang Shengjiang

Vice President

Mr. Wang Shengjiang, aged 38, is responsible for the overall management of project sales. Mr. Wang graduated from Tianjin University with a Bachelor degree in Civil Engineering in 1994 and began his study in Tsinghua University Business School for EMBA in year 2010. Mr. Wang has more than 16 years of real estate development related experience and has been working with the Company for eleven years.

Mr. Xu Qiang

Vice President

Mr. Xu Qiang, aged 38, is responsible for the overall project construction management. He joined the Company in 1999. Mr. Xu graduated from Beijing University of Civil Engineering and Architecture with a Bachelor of Science degree and has over eleven years of real estate related experience.

Ms. Ng Swen Dein

Vice President

Ms. Ng Swen Dein aged 46, is responsible for the overall property management and customer service. She joined the Company in 2010. Ms. Ng received her Bachelor degree in Marketing Management and Finance from University of Wisconsin in 1987. Ms. Ng has fifteen years of relevant experience in China's real estate industry including business management and property operations.

Mr. Yin Jie

Vice President

Mr. Yin Jie, aged 43, is our Chief Architect and is responsible for the overall project design. He joined the Company in 2009. Mr. Yin received his Bachelor degree from University of Washington in 1992 and is a registered architect in Washington State of the U.S. Prior to joining the Company, Mr. Yin practiced in a major U.S. architectural firm for seventeen years.

Directors' Report

Mr. He Yanan

Co-General Manager of Shanghai Branch

Mr. He Yanan, aged 32, is the co-General Manager of Shanghai branch of the Company. Mr. He joined the Company in September 1998 and held several positions in the Company including Director of Sales, Vice General Manager of Boao, Vice General Manager of the Commune by the Great Wall, Vice General Manager, Executive General Manager and General Manager of Shanghai branch. Mr. He was awarded the title of "Golden Property Trader" by Sina.com in 2010.

Mr. Li Qiang

Co-General Manager of Shanghai Branch

Mr. Li Qiang, aged 35, is the co-General Manager of Shanghai branch of the Company and is responsible for the overall management of Company's Shanghai projects. Mr. Li joined the Company in 1999. He graduated from Beijing University of Civil Engineering and Architecture with a Bachelor degree and has over thirteen years of real estate related experience.

Mr. Zhao Guilin

Qualified Accountant

Mr. Zhao Guilin, aged 47, is a qualified accountant and the director of corporate finance of the Company. He is responsible for the capital management, financing and tax management of the Company. Mr. Zhao has more than twenty-one years' working experience, and has worked with the Company for 13 years on a full time basis. Mr. Zhao was registered as a Hong Kong CPA with effect from 15 May 2007. In 2004 he obtained a Master's degree in accounting from Deakin University of Australia and qualified as a certified public accountant in Australia. Mr. Zhao qualified as a PRC certified public accountant in 1994 and a PRC registered taxation advisor in 1998. Mr Zhao graduated from Jilin University in 1988 with a Master's degree in technology.

Ms. Ma Sau Kuen Gloria

Company Secretary

Ms. Ma Sau Kuen Gloria, aged 52, was appointed as the Company Secretary of the Company on 26 November 2010. She has almost 30 years of experience in corporate secretarial work that includes acting as company secretary for companies listed on the Stock Exchange and setting up companies in different jurisdictions such as Hong Kong, Cayman Islands and British Virgin Islands. She also has extensive knowledge and experience in corporate restructuring and legal compliance issues. Ms. Ma is a director and head of registration and compliance services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. She holds a master degree in Business Administration from the University of Strathclyde, Scotland, and is a fellow member of the Hong Kong Institute of Chartered Secretaries, and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Directors' remuneration

The Directors' remunerations are determined by the Board, as authorized by the 2010 AGM held on 11 May 2010, with reference to Directors' duties, responsibilities and performance as well as the financial results of the Group.

Remuneration details of each Director for the year 2010 are set out as follows:

2010	**Directors' fees** *RMB'000*	**Salaries, allowance and benefits in kind** *RMB'000*	**Retirement scheme contributions** *RMB'000*	**Sub-total** *RMB'000*	**Share-based payments (Note i)** *RMB'000*	**Total** *RMB'000*
Executive Directors						
Pan Shiyi (Chairman)	240	5,688	29	5,957	–	5,957
Pan Zhang Xin Marita	240	5,145	–	5,385	–	5,385
Yan Yan	240	5,009	29	5,278	164	5,442
Wang Shaojian Sean (resigned on 31 May 2010)	100	2,274	–	2,374	61	2,435
Tong Ching Mau (appointed on 24 December 2010)	–	70	–	70	41	111
Independent non-executive Directors						
Ramin Khadem	298	–	–	298	–	298
Cha Mou Zing Victor	255	–	–	255	–	255
Yi Xiqun	255	–	–	255	–	255
Total	1,628	18,186	58	19,872	266	20,138

Note:

(i) These represent the estimated value of share options granted to the Directors under the Pre-IPO Share Option Scheme and the Share Option Scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 1(o)(ii) of the audited consolidated financial statements. Details of these benefits in kind, including the principal terms and number of options granted, are disclosed in Note 24 of the audited consolidated financial statements.

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. No Directors waived or agreed to waive any remuneration during the year.

Directors' Report

Interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2010, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which are required pursuant to section 352 of the SFO to be recorded in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to be notified to the Company and the Stock Exchange, are as follows:

(i) Interests in the ordinary shares of the Company

Name	Personal interests	Family interests	Corporate interests	Number of ordinary shares	Approximate percentage of shareholding
Pan Shiyi	–	3,324,100,000 (L)	–	3,324,100,000 (L)	64.0771% (L)
	–	254,857,191 (S)	–	254,857,191 (S)	4.9128% (S)
Pan Zhang Xin Marita	–	–	3,324,100,000 (L)	3,324,100,000 (L)	64.0771% (L)
	–	–	254,857,191 (S)	254,857,191 (S)	4.9128% (S)
Yan Yan	2,213,500 (L) (Note 2)	–	–	2,213,500 (L)	0.0427% (L)
Tong Ching Mau	554,250 (L) (Note 3)	–	–	554,250 (L)	0.0107% (L)
Ramin Khadem	300,000 (L)	–	–	300,000 (L)	0.0058% (L)

Notes:

(1) "L" represents the Directors' long position in underlying securities, "S" represents short position in underlying securities.

(2) These are interests in the underlying shares, which include (i) 1,242,500 options granted under the Pre-IPO Share Option Scheme; (ii) 901,000 options granted on 30 January 2008 under the Share Option Scheme, and (iii) 70,000 shares beneficially owned.

(3) These are interests in the underlying shares, which include (i) 331,250 options granted under the Pre-IPO Share Option Scheme; and (ii) 223,000 options granted on 30 January 2008 under the Share Option Scheme.

(ii) Interests in the ordinary shares of the Company's associated corporations

Name	Name of associated corporation	Nature of interest	Share capital *(USD)*	Approximate percentage of shareholding
Pan Shiyi	Beijing Redstone Jianwai Real Estate Development Co. Ltd.	interest of controlled corporation	1,275,000	4.25%
	Beijing SOHO Real Estate Co. Ltd.	beneficial owner	4,950,000	5.00%
	Beijing Redstone Newtown Real Estate Co. Ltd.	beneficial owner	500,000	5.00%
	Beijing Shanshi Real Estate Company Limited	beneficial owner	1,935,000	5.00%
Yan Yan	Beijing Redstone Jianwai Real Estate Development Co. Ltd.	interest of controlled corporation	225,000	0.75%

Save as disclosed above, to the knowledge of the Directors, as at 31 December 2010, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required pursuant to section 352 of the SFO to be recorded in the register referred to therein, or pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Report

Substantial shareholders and other persons' interests in the shares and underlying shares of the Company

As at 31 December 2010, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that, other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company:

Name	Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
Pan Zhang Xin Marita	beneficiary of trust	3,324,100,000(L)	64.0771%(L)
		254,857,191(S)	4.9128%(S)
HSBC International Trustee Limited (Note 2)	trustee	3,328,055,000(L)	64.1533%(L)
		254,857,191(S)	4.9128%(S)
Capevale Limited	interests of controlled corporation	3,324,100,000(L)	64.0771%(L)
		254,857,191(S)	4.9128%(S)
Boyce Limited (Note 3)	beneficial owner	1,662,050,000(L)	32.0385%(L)
		254,857,191(S)	4.9128%(S)
Capevale Limited (Note 4)	beneficial owner	1,662,050,000(L)	32.0385%(L)

Notes:

(1) "L" represents shareholders' long position in underlying securities. "S" represents shareholders' short position in underlying securities.

(2) HSBC International Trustee Limited (in its capacity as the trustee of the trust) is the legal owner of 100% of the shares in the issued share capital of Capevale Limited, a company incorporated in the Cayman Islands. HSBC International Trustee Limited holds 3,328,055,000 shares (long postion) and 254,857,191 shares (short position) under the Trust for the benefit of the beneficiaries of the trust, including Mrs. Pan Zhang Xin Marita. Boyce Limited, which is incorporated in the British Virgin Islands, is the registered owner of 1,662,050,000 shares (long position) and 254,857,191 shares (short position) of the Company's shares. Capevale Limited, which is incorporated in the British Virgin Islands, is the registered owner of 1,662,050,000 shares of the Company's shares.

(3) Boyce Limited, incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Capevale Limited, a company incorporated in the Cayman Islands. Mrs. Pan Zhang Xin Marita is the sole director of Boyce Limited.

(4) Capevale Limited, incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Capevale Limited, a company incorporated in the Cayman Islands. Mrs. Pan Zhang Xin Marita is the sole director of Capevale Limited.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2010, none of any person who had interest or short position in the shares and underlying shares of the Company which were required, pursuant to section 336 of the SFO, to be recorded into the register referred to therein.

Directors' interests in contracts of significance

Save as disclosed in the section headed "Connected Transactions" of this report, no contracts of significance, in relation to the Group's business to which the Company or any of its subsidiaries was a party in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

Directors' interests in competing business

Save as disclosed in the Company's prospectus dated 21 September 2007, as at 31 December 2010, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

Directors' rights to acquire shares of the Company

Save as disclosed in the section headed "Share Option Schemes" below, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or minor children, nor were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable any Directors to acquire such rights in any other body corporate.

Employee's Share Award Scheme

The Company adopted the employee's share award scheme ("Employee's Share Award Scheme") on 23 December 2010. The purpose of the Employee's Share Award Scheme is to recognize the contributions by certain employees of the Group and to give incentives to them in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group.

No shares was granted to the employees under the Employee's Share Award Scheme for the year ended 31 December 2010.

Directors' Report

Share Option Scheme

The Company has adopted the Share Option Scheme on 14 September 2007, which shall be valid and effective for a period of ten years commencing from 14 September 2007. The purpose of the Share Option Scheme is to provide the participants who have been granted options (the "Options") under the Share Option Scheme to subscribe for shares with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company for the benefit of the Company and shareholders as a whole. The Share Option Scheme will provide the Company with a flexible means of retaining, motivating, rewarding, remunerating, compensating and/or providing benefits to the participants. Under the Share Option Scheme, the Board may make an offer to (i) any Directors (including executive Directors, Non-executive Directors and independent non-executive Directors), employees and officers of any member of the Group and (ii) any advisers, consultants, agents, business partners, joint venture business partners and service providers of any member of the Group (collectively, these listed in (ii) being the "Business Associate"), as the Board may in its absolute discretion select, to take up Options (collectively the "Participants"). The amount payable by a Participant upon acceptance of a grant of Options is HKD1.00.

Unless approved by shareholders the total number of shares issued and to be issued upon exercise of the Options granted to each Participant (including exercised, cancelled and outstanding Options) under the Share Option Scheme or any other share option scheme adopted by the Company in any twelve-month period must not exceed 1% of the Shares in issue. Any further grant of Options which would result in the number of shares issued as aforesaid exceeding the said 1% limit will be subject to prior shareholders' approval with the relevant Participant and his associates (as defined in the Listing Rules) abstaining from voting. The period within which the Options may be exercised shall expire no later than ten years from the relevant date on which the offer of the grant of an Option is made to a Participant.

The subscription price of any Option granted under the Share Option Scheme may be determined by the Directors provided that it shall be no less than the higher of (i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the offer date; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the offer date; and (iii) the nominal value of a share on the date of grant.

As at 31 December 2010, the number of shares available for issue and remained outstanding under the Share Option Scheme was 5,292,000 (2009: 6,898,000) shares representing 0.10% (2009: 0.13%) of the issued share capital of the Company, 1,606,000 (2009: 836,000) shares options were cancelled during the Period.

Details of the Options granted under the Share Option Scheme and remain outstanding as at 31 December 2010 are as follows:

		Number of Options					
Name and class of grantees	**Date of grant**	**Outstanding as at 1 January 2010**	**Granted during the Period**	**Exercised during the Period**	**Cancelled during the Period**	**Lapsed during the Period**	**Outstanding as at 31 December 2010**
(1) Directors							
Yan Yan	30 January 2008 (Note 1)	901,000	–	–	–	–	901,000
Wang Shaojian, Sean (Note 3)	30 June 2008 (Note 2)	500,000	–	–	500,000	–	–
Tong Ching Mau (Note 4)	30 January 2008 (Note 1)	223,000	–	–	–	–	223,000
(2) Other employees	30 January 2008 (Note 1)	4,694,000	–	–	1,106,000	–	3,588,000
Other employees	30 June 2008 (Note 2)	580,000	–	–	–	–	580,000
Total		6,898,000	–	–	1,606,000	–	5,292,000

Notes:

(1) Details of Options:

Number of Options granted	**Exercise period**	**Exercise price per share** *HKD*	**Closing price per share immediately prior to the grant date** *HKD*
7,259,000	30 January 2009 to 29 January 2014 *	6.10	5.87

Directors' Report

(2) Details of Options:

Number of Options granted	Exercise period	Exercise price per share *HKD*	Closing price per share immediately prior to the grant date *HKD*
1,080,000	30 June 2009 to 29 June 2014 **	4.25	4.34

(3) Mr. Wang Shaojian, Sean resigned as Executive Director and chief financial officer with effect from 31 May 2010.

(4) Ms. Tong Ching Mau was appointed as Executive Director and chief financial officer with effect from 24 December 2010.

* The Options granted on 30 January 2008 are exercisable from the commencement of the exercise periods until the expiry of the Options which is on 29 January 2014. One-third of such Options are exercisable after the expiry of the first year from the date of grant, a further one-third is exercisable after the expiry of second year from the date of grant, and the remaining one-third is exercisable after the expiry of third year from the date of grant.

** The Options granted on 30 June 2008 are exercisable from the commencement of the exercise periods until the expiry of the Options which is on 29 June 2014. One-third of such Options are exercisable after the expiry of the first year from the date of grant, a further one-third is exercisable after the expiry of second year from the date of grant, and the remaining one-third is exercisable after the expiry of third year from the date of grant.

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme on 14 September 2007, the terms of which are substantially the same as the terms of the Share Option Scheme except that:

(i) the exercise price per share under the Pre-IPO Share Option Scheme shall be equal to the offer price per share upon initial public offering of the Company's shares;

(ii) the term of the Pre-IPO Share Option Scheme is six years;

(iii) the total number of shares which may be issued upon the exercise of all Options granted under the Pre-IPO Share Option Scheme is 12,058,000 shares, representing approximately 0.23% of the enlarged issued share capital of the Company after completion of the global offering; and

(iv) save for the Options which have been granted, no further Options will be granted on or after the Company's listing on 8 October 2007, as the right to do so has ended on 8 October 2010.

As at 31 December 2010, the number of shares available for issue and remained outstanding under the Pre-IPO Share Option Scheme was 8,405,280 (2009: 10,190,575) shares representing 0.16% (2009: 0.20%) of the issued share capital of the Company. 1,785,295 Options were cancelled during the Period.

Details of the outstanding Options granted under the Pre-IPO Share Option Scheme are as follows:

	Number of Options					
Name and class of grantees	**Granted on 14 September 2007 (Note)**	**Outstanding as at 1 January 2010**	**Exercised during the Period**	**Cancelled during the Period**	**Lapsed in during the Period**	**Outstanding as at 30 December 2010**
(1) Directors						
Yan Yan	1,242,500	1,242,500	–	–	–	1,242,500
Su Xin (resigned on 30 September 2009)	750,000	–	–	–	–	–
Tong Ching Mau (appointed on 24 December 2010)	331,250	331,250	–	–	–	331,250
(2) Employees of the Group	9,734,250	8,616,825	–	1,785,295	–	6,831,530
	12,058,000	10,190,575	–	1,785,295	–	8,405,280

Note:

All the Options granted on 14 September 2007 under the Pre-IPO Share Option Scheme can be exercised at the price of HKD8.3 per share. All the Options under the Pre-IPO Share Option Scheme cannot be exercised within the first twelve months after the date of the listing of the Company. The Options granted under the Pre-IPO Share Option Scheme on 14 September 2007 are exercisable for the period from 8 October 2008 until the expiry of Options which is on 7 October 2013. One-third of such Options are exercisable after the expiry of the first year from the date of grant, a further one-third is exercisable after the expiry of second year from the date of grant, and the remaining one-third is exercisable after the expiry of third year from the date of grant.

Major suppliers

The percentage of purchases by the Group for the Year attributable to the Group's largest five suppliers amounted to less than 30%.

Charitable donations

In 2010, the Group contributed RMB14 million to various charities.

Directors' Report

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the date of this annual report.

Compliance with the Code of Corporate Governance Practices

In the opinion of the Directors, the Company has been in compliance with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the accounting period covered by this annual report.

Material legal proceedings

To the knowledge of the Directors, there is no material legal proceeding during the Year.

Purchase, sale or redemption of listed securities of the Company

During the Year, neither the Company nor its subsidiary has purchased, sold or redeemed any of the Company's listed securities.

Auditor

The consolidated financial statements of the Group have been audited by KPMG. A resolution for their re-appointment as auditor of the Group for the next financial year will be proposed at the forthcoming AGM.

On behalf of the Board
Pan Shiyi
Chairman
Hong Kong
2 March 2011

Connected Transactions

During the Year, the Group had the following continuing connected transactions (the "Transactions") with connected persons of the Company within the meaning of the Listing Rules. Details of the Transactions have been described in the prospectus of the public offering of the Company's shares dated 21 September 2007 (the "Prospectus") under the heading "Relationship with Our Controlling Shareholders and Founders". The status of the Transactions of the Group as at 31 December 2010 and for the year then ended is set out below:

1. Continuing connected transactions for which waiver had been sought from strict compliance with the announcement requirements under Rule 14A.47 of the Listing Rules:

   (a) Property purchase contracts between Beijing Zeli Investment Co., Ltd. ("Beijing Zeli") and Beijing ZhongHongTian Real Estate Co., Ltd. ("ZhongHongTian")

   As disclosed in the Prospectus, the total outstanding amount from the above contracts was RMB15,572,207 as at 23 July 2007, 50% of which should be repayable on 30 June 2008 and the remaining 50% should be repayable on 31 December 2008. The outstanding amount bears an interest at the PBOC's lending rate. As at 31 December 2010, the balance of RMB15,572,207 remained outstanding and interests receivable of RMB1,981,096 thereon was recorded.

   (b) Property purchase contracts between Beijing Hongyun Co., Ltd. ("Hongyun") and ZhongHongTian

   As disclosed in the Prospectus, the total outstanding amount from the above contracts was RMB3,916,128 as at 24 July 2007, 50% of which should be repayable on 30 June 2008 and the remaining 50% should be repayable on 31 December 2008. The outstanding amount bears an interest at the PBOC's lending rate. As at 31 December 2010, the balance of RMB3,916,128 remained outstanding and interests receivable of RMB498,210 thereon was recorded.

   (c) Four connected transactions between the Group and Ms. Yan Yan and her associates

   As disclosed in the Prospectus, Ms. Yan Yan and her associates entered into four purchase contracts with the Group to purchase one unit in Chaowai SOHO, one unit in Jianwai SOHO and two units in SOHO Shangdu. Ms. Yan Yan and her associates settled part of the purchase prices for these four units by way of mortgages which are guaranteed by the Group. The guarantee provided by the Group for the unit in Jianwai SOHO was terminated on 26 September 2008. As at 31 December 2010, the aggregate amounts outstanding under these mortgages amounted to RMB1,740,151.

   The independent non-executive Directors have reviewed the above Transactions during the Year and confirmed that the Transactions have been entered into:

   (i) in the ordinary and usual course of the business of the Group;

   (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

   (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

   Further, the Company has engaged its auditor to perform procedures and report their findings regarding the Transactions entered into by the Group set out above for the year ended 31 December 2010. The auditor has issued a letter containing their findings and conclusions in respect of the Transactions set out above and a copy has been provided to the Stock Exchange.

Corporate Governance Report

The Company is committed to upholding high standards of corporate governance which, it believes, is crucial to the development of the Company and safeguarding the interests of the shareholders of the Company. The Company has adopted sound governance and disclosure practices, and is committed to continuously improve these practices and inculcate an ethical corporate culture.

In the opinion of the Directors, the Company has been in compliance with the code provisions of the Code on Corporate Governance Practices (the "Code Provisions") contained in Appendix 14 to the Listing Rules for the year ended 31 December 2010.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions carried out by the Directors. The Company had made specific enquiry to all Directors and all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2010.

Board of Directors

The Board is responsible for the leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. Under the leadership of the Chairman, the Board is also responsible for approving and overseeing the overall strategies and policies of the Company, approving the annual budget and business plans, assessing the Company's performance and supervising the work of the senior management.

The Board is currently comprised of seven Directors, including four executive Directors, namely Mr. Pan Shiyi (Chairman), Mrs. Pan Zhang Xin Marita (Chief Executive Officer), Ms. Yan Yan and Ms. Tong Ching Mau; and three independent non-executive Directors, namely Dr. Ramin Khadem, Mr. Cha Mou Zing Victor and Mr. Yi Xiqun (Details of their biographical information are set out in the section headed "Biographies of Directors and members of senior management" of this report).

Regular Board meetings are held at least four times a year (at quarterly intervals) and any ad hoc meeting will be held when necessary. At least fourteen days notice will be given to all the Directors prior to any Board meeting and any relevant materials to be presented to a Board meeting will be provided to Directors at least three days before such Board meeting. The Directors are appointed by shareholders of the Company through ordinary resolutions or appointed by the Board to fill any existing vacancies on the Board or for new additions to the Board. At each AGM, one-third (or, if the number is not a multiple of three, the number nearest to but not greater than one-third) of the Directors in office at the relevant time shall retire by rotation but are eligible for re-election and re-appointment.

The Chairman of the Board, Mr. Pan Shiyi, is the husband of Mrs. Pan Zhang Xin Marita, an executive Director and the Chief Executive Officer. Except for disclosed above, the Board members have no financial, business, family or other material/relevant relationships with each other.

The Board is established in accordance with the provisions of Rule 3.10 of the Listing Rules. Of the three independent non-executive Directors appointed, at least one or more are equipped with financial expertise.

The Board's composition demonstrates a balance of core competence with regard to the business of the Company, so as to provide effective leadership and the required expertise to the Company.

Liability insurance for Directors and senior management officers was maintained by the Company with coverage for any legal liabilities which may arise in the course of performing their duties.

Chairman and Chief Executive Officer

The Chairman of the Board and the Chief Executive Officer are currently two separate positions held by Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita respectively with clear distinction in responsibilities. The Chairman of the Board is responsible for the management and leadership of the Board to formulate overall strategies and business development directions for the Company, to ensure adequate, complete and reliable information is provided to all Directors in a timely manner, and to ensure the issues raised at the Board meetings are explained appropriately. The Chief Executive Officer is responsible for the management of the business of the Company, implementation of the policies, business objectives and plans set by the Board and is accountable to the Board for the overall operation of the Company.

Independent non-executive Directors

According to the Code Provisions, each independent non-executive Director has a specific term of service and subject to re-election. Each of the independent non-executive Director has renewed their appointment letters with the Company for a term commencing from 1 January 2011 to 31 December 2011.

Pursuant to the guidelines provided in Rule 3.13 of the Listing Rules, the Company has received the confirmation of independence from each of the independent non-executive Directors, and thus the Board considers such Directors to be independent persons. The Board believes that the independent non-executive Directors are able to offer independent opinions on the Company's development strategy, risk management and management process, etc. so that the interests of the Company and all shareholders will be taken into consideration and duly safeguarded.

Change in senior management and member of the compliance committee

Mr. Wang Shaojian Sean resigned as executive Director and Chief Financial Officer of the Company with effect from 31 May 2010. Following the resignation of Mr. Wang, the Board has appointed Ms. Tong Ching Mau as executive Director and Chief Financial Officer of the Company with effect from 24 December 2010. Ms. Yan Yan and Mr. Wang Shaojian Sean has resigned as members of the compliance committee of the Company with effect from 11 March 2010. Mr. Ngai Wai Fung has resigned as the Company Secretary and Authorised Representative of the Company with effect from 26 November 2010. The Board approved the appointment of Ms. Ma Sau Kuen Gloria as the Company Secretary and Authorised Representative of the Company on 26 November 2010.

Corporate Governance Report

Board meetings

In 2010, four Board meetings were held by the Company and below is the attendance of each of the Directors at Board meetings:

Directors	Attendance/No. of Meetings
Executive Directors	
Pan Shiyi	4/4
Pan Zhang Xin Marita	4/4
Yan Yan	4/4
Wang Shaojian Sean (Note 1)	1/1 (Note 2)
Tong Ching Mau (Note 3)	0/0 (Note 4)
Independent non-executive Directors	
Ramin Khadem	4/4
Cha Mou Zing Victor	4/4
Yi Xiqun	3/4

Note 1: Mr. Wang Shaojian Sean resigned as executive Director with effect from 31 May 2010.

Note 2: One Board meeting was held during the period from 1 January 2010 to 31 May 2010.

Note 3: Ms. Tong Ching Mau was appointed as executive Director with effect from 24 December 2010.

Note 4: No Board meeting was held during the period from 24 December 2010 to 31 December 2010.

During Board meetings, the senior management of the Company provided each Director with timely information regarding the business activities and developments of the Company and met with independent non-executive Directors to seek their views on the business development and operational matters of the Company.

Provision and use of information

- Minutes of all Board meetings and meetings of the Board committees are kept by designated secretaries, and will be available for inspection by any Director after giving reasonable notice.

- All Directors are entitled to receive advice and services from the Company Secretary to ensure due compliance with the terms of reference of the Board.

- Directors may have recourse to seek independent advice from professionals as appropriate and such fees incurred shall be borne by the Company.

Audit committee

The audit committee comprises three independent non-executive Directors, namely Dr. Ramin Khadem, Mr. Cha Mou Zing Victor and Mr. Yi Xiqun. The committee is chaired by Dr. Ramin Khadem, who has the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The audit committee is authorized by the Board to review the relevant financial reports and to give recommendations and advices, its duties include:

1. **Relationship with the Company's auditors**
   The duty to make recommendations to the Board on the appointment, reappointment or removal of external auditor(s); to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; to develop and implement policies on the engagement of the external auditor for providing audit services; to meet with the external auditor and discuss matters relating to the audit, if necessary, in the absence of the management of the Company.

2. **Review of financial information of the Company**
   The duty to monitor the integrity of financial statements of the Company set out in the Company's annual reports and accounts and the half-yearly reports, and to review any significant views of financial reporting contained in them.

3. **Monitor the Company's financial reporting system and internal control procedures**
   Each of the Company's operational departments has established internal audit and supervisory functions for its operating procedures. The audit committee will also review the financial control, internal control and risk management systems to ensure adequate resources, including that sufficient staff with qualifications and experience in accounting and financial reporting, as well as training programs and budgets are allocated to operate the internal control procedures effectively.

Corporate Governance Report

In 2010, two meetings were held by the audit committee and below is the attendance of each of the committee members:

Committee Members	Attendance/No. of Meetings
Ramin Khadem (Chairman)	2/2
Cha Mou Zing Victor	2/2
Yi Xiqun	0/2

The audit committee had reviewed the internal audit plan report submitted by the internal audit department and recommended the Board on risk and internal control matters. The audit committee has also reviewed the adequacy of resources and the audited consolidated annual results of the Company for the year ended 31 December 2010 and considered that the Company had complied with all applicable accounting standards and requirements and had made adequate disclosure.

The audit committee has reviewed the auditor's fee for the year 2010, and recommended the Board to re-appoint KPMG as the auditors of the Company for the year 2011, which is subject to the approval of shareholders at the forthcoming AGM.

Remuneration committee

The remuneration committee comprises three independent non-executive Directors, namely Mr. Cha Mou Zing Victor, Dr. Ramin Khadem, and Mr. Yi Xiqun. The committee is chaired by Mr. Cha Mou Zing Victor. The remuneration committee is mainly responsible for appraising the performance of the executive Directors and senior management of the Company and making recommendations for their remuneration arrangements, as well as for assessing and making recommendations for staff benefits to the Board.

In 2010, one meeting was held by the remuneration committee and below is the attendance of each of the committee members:

Committee Members	Attendance/No. of Meetings
Cha Mou Zing Victor (Chairman)	2/2
Ramin Khadem	2/2
Yi Xiqun	2/2

A complete record of the minutes of the remuneration committee meetings is kept by the Company Secretary. The remuneration committee had reviewed the Company's remuneration policies, the terms of the service contracts and the performance of all executive Directors and the senior management. In the opinion of the remuneration committee, the remuneration payable to all executive Directors and the senior management is in accordance with the terms of the service contracts, such remuneration is fair and reasonable, and does not create any additional burden for the Company.

Remuneration details of each Director for the year 2010 are set out in the section headed "Directors' remuneration" of this report and the Note 7 to the audited consolidated financial statements.

Corporate Governance Report

Nomination, appointment and re-election of Directors

The Company has not established a nomination committee. The Board is responsible for formulating procedures for appointing Directors and nominating for election by shareholders of appropriate persons to fill casual vacancies or as an addition to the existing Directors at the shareholders' general meeting.

The Directors appointed by the Board in 2010 will retire and be eligible for re-appointment at the forthcoming AGM. The circular to be sent to the shareholders prior to the AGM will include details for election of Directors and biographies of all re-appointment candidates, to ensure that all shareholders are well-informed prior to the election of Directors.

Compliance committee

Following the change of member of the compliance committee, as mentioned under the section "Change in senior management and members of the compliance committee" of this Corporate Governance Report, the compliance committee currently comprises two independent non-executive Directors, one executive Director and one senior management, namely Mr. Yi Xiqun, Dr. Ramin Khadem, Mrs. Pan Zhang Xin Marita, and Ms. Lai Chor Shan. The committee is chaired by Mr. Yi Xiqun. Former compliance committee member Mr. Wang Shaojian Sean and Ms. Yan Yan resigned from the committee with effect from 11 March 2010.

In 2010, one meeting was held by the compliance committee and below is the attendance of each of the committee members:

Committee Members	Attendance/No. of Meetings
Yi Xiqun (Chairman)	1/1
Ramin Khadem	1/1
Pan Zhang Xin Marita	1/1
Yan Yan (Note 1)	0/1
Wang Shaojian Sean (Note 2)	1/1
Lai Chor Shan	1/1

Note 1: Ms. Yan Yan resigned as member of the compliance committee with effect from 11 March 2010.

Note 2: Mr. Wang Shaojian Sean resigned as member of the compliance committee with effect from 11 March 2010.

Directors' responsibility for the financial statements

The Directors are responsible for supervising the preparation of the annual accounts, which give a true and fair view of the state of affairs, the operating results and the cash flows of the Group for the year. In preparing the accounts for the year ended 31 December 2010, the Directors have selected suitable accounting policies and adopted appropriate accounting standards. Based on judgments and estimates that are prudent and reasonable, the Directors had ensured that the accounts are prepared on the going concern basis. The Directors have confirmed that the consolidated financial statements of the Group are prepared in compliance with the statutory requirements and appropriate standards of accounting.

Internal control

The Board has the responsibility to maintain and review the Group's internal control system to ensure the Company's assets and shareholders' interests are safeguarded. The Board also reviews the internal control and risk management systems to ensure their effectiveness.

The Company has set up an audit & operation control department, which is an important part of its internal control system.

In 2010, the audit & operation control department reviewed the internal control of the important processes and these ensured a sound and effective internal control system.

The audit & operation control department did special audit on budgeting of important operation units and business procedure. It also worked on financial monitoring, operation monitoring, compliance monitoring and risk management.

The Board is responsible for the internal control system of the Company and conducts regular reviews on the effectiveness of the system through the audit & operation department. The Board considers that, during the Period, the existing internal control system has been operating in a healthy and effective manner in the finance, operation, compliance and risk management aspects.

Corporate Governance Report

Auditors' remuneration

KPMG is the independent external auditor of the Company. The remuneration amounts paid and payable by the Company to KPMG for their services rendered for the year ended 31 December 2010 are set out below:

Services rendered	Fees paid/payable
Audit services for 2010	RMB5.55 million
Non-audit services:	
Financial due diligence services	RMB0.58 million
Hong Kong profits tax compliance service	RMB0.17 million
Transfer pricing service	RMB0.25 million
Consulting service regarding qualification of resident enterprise	RMB0.25 million

Effective communication with the investment community

The investor relations team of the Company seeks to provide the most efficient and effective channel for our shareholders and the investment community to gain information about the Company. To keep our shareholders, convertible bond holders and the investment community informed of the Company's development, the investor relations team communicates actively through email and is a frequent participant in global investment conferences.

In 2010, we attended twelve global investor conferences in Hong Kong, Singapore, Shanghai and Beijing and met over 350 investors from about 250 institutions.

Led by our Chief Executive Officer, Mrs. Pan Zhang Xin Marita, the Company also conducted a global non-deal roadshow in March 2010, visiting investors in Hong Kong, Singapore, London, New York and Boston. An Asian non-deal roadshow was conducted in August 2010. The Company also conducted a non-deal roadshow in October 2010, visiting investors in Tokyo, Japan.

The 2010 AGM provided ideal chance for communication between the Board and the shareholders. The chairmen of the audit committee and external auditor were all present at the AGM held on 11 May 2010, to answer shareholders' inquiries.

Corporate Information

Executive Directors	Pan Shiyi (Chairman) Pan Zhang Xin Marita (Chief Executive Officer) Yan Yan Tong Ching Mau
Independent non-executive Directors	Ramin Khadem Cha Mou Zing Victor Yi Xiqun
Company Secretary	Ma Sau Kuen Gloria
Qualified Accountant	ZHAO Guilin, CPA (Aust.), CPA (Hong Kong)
Members of the Audit Committee	Ramin Khadem (Chairman) Cha Mou Zing Victor Yi Xiqun
Members of the Remuneration Committee	Cha Mou Zing Victor (Chairman) Ramin Khadem Yi Xiqun
Members of the Compliance Committee	Yi Xiqun (Chairman) Ramin Khadem Pan Zhang Xin Marita LAI Chor Shan
Authorised Representatives	Pan Zhang Xin Marita Ma Sau Kuen Gloria
Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Corporate Headquarters	11F, Section A Chaowai SOHO No. 6B Chaowai Street Chaoyang District Beijing 100020 China
Principal Place of Business in Hong Kong	8th Floor Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong

Corporate Information

Cayman Islands Principal Share Registrar and Transfer Office	Bank of Butterfield International (Cayman) Ltd. Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Hong Kong Legal Advisor	Mallesons Stephen Jaques 13/F, Gloucester Tower The Landmark 15 Queen's Road Central, Central Hong Kong
Auditors	KPMG 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Principal Banker	China CITIC Bank Corporation Ltd. China Merchants Bank Corporation Ltd. Bank of China Corporation Ltd.
Website address	www.sohochina.com
Stock Code	410

Independent Auditor's Report

Independent auditor's report to the shareholders of SOHO China Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of SOHO China Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 3 to 70, which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 the 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Independent Auditor's Report *(continued)*

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 2010 and of the Group's consolidated 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
2 March 2011

Consolidated income statement for the year ended 31 December 2010

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Turnover	3	**18,215,091**	7,413,451
Cost of properties sold		**(8,958,349)**	(3,556,393)
Gross profit		**9,256,742**	3,857,058
Valuation gains on investment property	11	**165,000**	2,144,461
Other operating revenue		**207,438**	115,065
Selling expenses		**(547,437)**	(262,084)
Administrative expenses		**(204,776)**	(184,801)
Other operating expenses		**(153,132)**	(121,857)
Profit from operations		**8,723,835**	5,547,842
Financial income	4(a)	**224,394**	233,693
Financial expenses	4(a)	**(292,351)**	(146,620)
Government grants	5	**44,190**	23,795
Profit before taxation	4	**8,700,068**	5,658,710
Income tax	6(a)	**(4,928,485)**	(2,264,020)
Profit for the year		**3,771,583**	3,394,690
Attributable to:			
Equity shareholders of the Company		**3,636,156**	3,300,178
Non-controlling interests		**135,427**	94,512
Profit for the year		**3,771,583**	3,394,690
Earnings per share (RMB)	10		
Basic		**0.701**	0.636
Diluted		**0.673**	0.625

The notes on pages 11 to 70 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 22(b).

Consolidated statement of comprehensive income for the year ended 31 December 2010

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Profit for the year		**3,771,583**	3,394,690
Other comprehensive income for the year (after tax and reclassification adjustments):			
Exchange differences on translation of financial statements of foreign operations	22(d)(iii)	**41,556**	(58,902)
Total comprehensive income for the year		**3,813,139**	3,335,788
Attributable to:			
Equity shareholders of the Company		**3,677,712**	3,241,276
Non-controlling interests		**135,427**	94,512
Total comprehensive income for the year		**3,813,139**	3,335,788

The notes on pages 11 to 70 form part of these financial statements.

Consolidated balance sheet at 31 December 2010

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Fixed assets	11		
– Investment property		**3,085,000**	2,920,000
– Other property and equipment		**554,161**	672,211
		3,639,161	3,592,211
Bank deposits	17	**3,840,915**	1,277,691
Interest in jointly controlled entity	13	**1,211,900**	–
Deferred tax assets	14(b)	**1,019,420**	557,761
Total non-current assets		**9,711,396**	5,427,663
Current assets			
Properties under development and completed properties held for sale	15	**18,697,483**	21,520,795
Trade and other receivables	16	**1,796,632**	1,565,984
Cash and cash equivalents	18	**17,724,921**	9,241,879
Total current assets		**38,219,036**	32,328,658
Current liabilities			
Bank loans	19	**2,580,744**	550,000
Trade and other payables	20	**9,306,445**	7,708,176
Taxation	14(a)	**6,966,710**	3,700,397
Total current liabilities		**18,853,899**	11,958,573
Net current assets		**19,365,137**	20,370,085
Total assets less current liabilities		**29,076,533**	25,797,748

The notes on pages 11 to 70 form part of these financial statements.

Consolidated balance sheet at 31 December 2010 *(continued)*

(Expressed in Renminbi)

	Note	**2010** *RMB'000*	2009 *RMB'000*
Non-current liabilities			
Bank loans	*19*	**6,052,171**	5,769,660
Convertible bonds	*21*	**1,984,828**	1,958,783
Contract retention payables		**273,732**	22,241
Deferred tax liabilities	*14(b)*	**786,434**	604,537
Total non-current liabilities		**9,097,165**	8,355,221
NET ASSETS		**19,979,368**	17,442,527
CAPITAL AND RESERVES	*22*		
Share capital		**107,485**	107,485
Reserves		**19,135,247**	17,116,130
Total equity attributable to equity shareholders of the Company		**19,242,732**	17,223,615
Non-controlling interests		**736,636**	218,912
TOTAL EQUITY		**19,979,368**	17,442,527

Approved and authorised for issue by the board of directors on 2 March 2011.

Directors
Pan Shiyi　　Pan Zhang Xin Marita

The notes on pages 11 to 70 form part of these financial statements.

Balance sheet at 31 December 2010

(Expressed in Renminbi)

	Note	**2010** *RMB'000*	2009 *RMB'000*
Non-current assets			
Investments in subsidiaries	*12*	**294,423**	294,423
Current assets			
Properties under development and completed properties held for sale		**31,662**	80,265
Trade and other receivables	*16*	**14,542,590**	13,499,024
Cash and cash equivalents	*18*	**457,312**	1,062,772
Total current assets		**15,031,564**	14,642,061
Current liabilities			
Bank loans	*19*	**680,744**	–
Other payables		**64,005**	24,261
Amounts due to subsidiaries		**1,032,489**	683,982
Total current liabilities		**1,777,238**	708,243
Net current assets		**13,254,326**	13,933,818
Total assets less current liabilities		**13,548,749**	14,228,241
Non-current liabilities			
Convertible bonds	*21*	**1,984,828**	1,958,783
NET ASSETS		**11,563,921**	12,269,458
CAPITAL AND RESERVES	*22*		
Share capital		**107,485**	107,485
Reserves		**11,456,436**	12,161,973
TOTAL EQUITY		**11,563,921**	12,269,458

Approved and authorised for issue by the board of directors on 2 March 2011.

Directors

Pan Shiyi Pan Zhang Xin Marita

The notes on pages 11 to 70 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2010

(Expressed in Renminbi)

		Attributable to equity shareholders of the Company											
	Note	Share capital	Share premium	Capital redemption reserve	Treasury shares	Capital reserve	Exchange reserve	Revaluation reserve	General reserve fund	Retained profits	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009		107,485	11,424,236	867	–	35,891	(606,291)	216,232	259,043	2,550,579	13,988,042	136,845	14,124,887
Profit for the year		–	–	–	–	–	–	–	–	3,300,178	3,300,178	94,512	3,394,690
Other comprehensive income		–	–	–	–	–	(58,902)	–	–	–	(58,902)	–	(58,902)
Total comprehensive income		–	–	–	–	–	(58,902)	–	–	3,300,178	3,241,276	94,512	3,335,788
Treasury shares	*22(c)(i)*	–	–	–	(8,775)	–	–	–	–	–	(8,775)	–	(8,775)
Equity component of the Convertible Bonds	*21*	–	–	–	–	514,395	–	–	–	–	514,395	–	514,395
Dividends approved in respect of the previous year	*22(b)*	–	–	–	–	–	–	–	–	(518,766)	(518,766)	–	(518,766)
Equity settled share-based transactions	*24*	–	–	–	–	9,648	–	–	–	–	9,648	–	9,648
Transfer to general reserve fund	*22(d)(v)*	–	–	–	–	–	–	–	136,638	(136,638)	–	–	–
Acquisition of non-controlling interests	*22(f)*	–	–	–	–	–	–	–	–	(2,205)	(2,205)	–	(2,205)
Distributions to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(12,445)	(12,445)
At 31 December 2009		107,485	11,424,236	867	(8,775)	559,934	(665,193)	216,232	395,681	5,193,148	17,223,615	218,912	17,442,527
At 1 January 2010		**107,485**	**11,424,236**	**867**	**(8,775)**	**559,934**	**(665,193)**	**216,232**	**395,681**	**5,193,148**	**17,223,615**	**218,912**	**17,442,527**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,636,156**	**3,636,156**	**135,427**	**3,771,583**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**41,556**	**–**	**–**	**–**	**41,556**	**–**	**41,556**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**41,556**	**–**	**–**	**3,636,156**	**3,677,712**	**135,427**	**3,813,139**
Dividends approved in respect of the previous year	*22(b)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,660,050)**	**(1,660,050)**	**–**	**(1,660,050)**
Equity settled share-based transactions	*24*	**–**	**–**	**–**	**–**	**1,455**	**–**	**–**	**–**	**–**	**1,455**	**–**	**1,455**
Transfer to general reserve fund	*22(d)(v)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,706**	**(6,706)**	**–**	**–**	**–**
Acquisition of subsidiaries	*28*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**409,149**	**409,149**
Capital contributions from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**35,270**	**35,270**
Distributions to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(62,122)**	**(62,122)**
At 31 December 2010		**107,485**	**11,424,236**	**867**	**(8,775)**	**561,389**	**(623,637)**	**216,232**	**402,387**	**7,162,548**	**19,242,732**	**736,636**	**19,979,368**

The notes on pages 11 to 70 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2010

(Expressed in Renminbi)

	2010 *RMB'000*	2009 *RMB'000*
Operating activities		
Profit before taxation	**8,700,068**	5,658,710
Adjustments for:		
Valuation gains on investment property	**(165,000)**	(2,144,461)
Depreciation	**18,302**	24,010
Financial income	**(224,394)**	(233,693)
Interest expense	**265,914**	137,120
Loss on sale of other property and equipment	**241**	16
Equity-settled share-based payment expense	**1,455**	9,648
Changes in working capital:		
Increase in trade and other receivables	**(181,848)**	(385,148)
Decrease/(increase) in properties under development and completed properties held for sale	**6,173,839**	(2,733,483)
Increase in trade and other payables	**485,015**	3,464,945
Cash generated from operation	**15,073,592**	3,797,664
Interest received	**153,707**	150,878
Interest paid	**(509,669)**	(322,585)
Income tax paid	**(1,927,683)**	(647,728)
Net cash generated from operating activities	**12,789,947**	2,978,229

The notes on pages 11 to 70 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2010 *(continued)*

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Cash flows from investing activities			
Payment for purchase of fixed assets		**(58,861)**	(1,352,793)
Proceeds from sale of other property and equipment		**269**	87
Increase in term deposits with banks and other financial institutions over 3 months		**(1,571,313)**	(1,097,111)
Increase in bank deposits		**(2,563,224)**	(495,345)
Net cash outflow arising from the acquisition of subsidiaries		**(1,521,935)**	(4,768,003)
Payment for acquisition of interest in jointly controlled entity		**(961,900)**	–
Payment for purchase of derivative financial instruments		**–**	(22,138)
Proceeds from settlement of derivative financial instruments		**–**	84,344
New advances to related parties		**–**	(10,333)
Repayments from related parties		**–**	42,246
Net cash used in investing activities		**(6,676,964)**	(7,619,046)
Cash flows from financing activities			
Proceeds from bank loans		**5,802,703**	2,153,972
Repayment of bank loans		**(3,489,448)**	(1,117,550)
Dividends paid to equity shareholders of the Company		**(1,660,050)**	(518,766)
Proceeds from issue of the Convertible Bonds		**–**	2,467,864
Payment of transaction costs on issue of the Convertible Bonds		**–**	(38,510)
Payment for purchase of treasury shares	*22(c)(i)*	**–**	(8,775)
Repayment of advances from a third party		**–**	(36,401)
Capital contribution from non-controlling interests		**35,270**	–
Acquisition of non-controlling interests	*22(f)*	**–**	(2,205)
Distributions to non-controlling interests		**(1,972)**	(12,445)
Net cash generated from financing activities		**686,503**	2,887,184
Net increase/(decrease) in cash and cash equivalents		**6,799,486**	(1,753,633)
Cash and cash equivalents at 1 January		**7,122,768**	8,886,804
Effect of foreign exchange rate changes		**112,243**	(10,403)
Cash and cash equivalents at 31 December	*18*	**14,034,497**	7,122,768

The notes on pages 11 to 70 form part of these financial statements.

Notes to the financial statements

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a jointly controlled entity.

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the subsidiaries carrying out the principal activities of the Group. The consolidated financial statements are prepared on the historical cost basis, except for investment property (see Note 1(f)), office premises (see Note 1(g)), derivative financial instruments (see Note 1(e)) and convertible bonds (see Note 1(k)), which are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 29.

Notes to the financial statements *(continued)*

1 Significant accounting policies (continued)

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statements and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Notes 1(k), (l) or (m) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see Note 1(d)).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(h)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 Significant accounting policies (continued)

(d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 1(h)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 1(d)).

In the Company's balance sheet, investments in associates and jointly controlled entities are stated at cost less impairment losses (see Note 1(h)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the financial statements *(continued)*

1 Significant accounting policies (continued)

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(f) Investment property

Investment properties are land and/or buildings which are owned to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the balance sheet at fair value, unless they are still in the course of construction or development at the balance sheet date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in Note 1(r)(ii).

(g) Other property and equipment

Office premises are stated at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation.

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Serviced apartment properties, that are owner-occupied properties from which the Group earns apartment service income, and other items of equipment are stated at cost less accumulated depreciation and impairment losses (see Note 1(h)).

Changes arising on the revaluation of office premises are generally dealt with in other comprehensive income and are accumulated separately in equity in the revaluation reserve. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

1 Significant accounting policies (continued)

(g) Other property and equipment (continued)

Cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure incurred after the asset has been placed into operations is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are charged to profit or loss in the period incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Office premises and serviced apartment properties situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.

– Office equipment 5 years

– Motor vehicles 8 years

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Impairment of assets

(i) Impairment of investments in debt and equity securities and receivables

Investments in debt and equity securities (other than investments in subsidiaries: see Note 1(h)(ii)) and current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

Notes to the financial statements *(continued)*

1 Significant accounting policies (continued)

(h) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and receivables (continued)

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associate and jointly controlled entities recognised using the equity method (see Note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note 1(h)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 1(h)(ii).
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 Significant accounting policies (continued)

(h) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property and equipment (other than office premises carried at revalued amounts) and investments in subsidiaries (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)) may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 1(h)(i) and (ii)).

Notes to the financial statements *(continued)*

1 Significant accounting policies (continued)

(i) Properties under development and completed properties held for sale

Properties under development and completed properties held for sale in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see Note 1(t)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– Completed property held for resale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the properties to their present location and condition.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see Note 1(h)).

(k) Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

1 Significant accounting policies (continued)

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 1(q)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contributions retirement scheme as required under relevant People's Republic of China (the "PRC") laws and regulations are charged to profit or loss when incurred.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Notes to the financial statements *(continued)*

1 Significant accounting policies (continued)

(o) Employee benefits (continued)

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 Significant accounting policies (continued)

(p) Income tax (continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(q)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

Notes to the financial statements *(continued)*

1 Significant accounting policies (continued)

(q) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 1(q)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 1(q)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of properties

Revenue arising from the sale of properties held for sale is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyers. The Group considers that the significant risks and rewards of ownership are transferred when the properties are completed and delivered to the buyers. Revenue from sales of properties excludes business tax and is after deduction of any trade discounts. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet as sales deposits.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Rental income from operating leases excludes business tax. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1 Significant accounting policies (continued)

(r) Revenue recognition (continued)

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Dividend

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

(v) Commission income

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(vi) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

Notes to the financial statements *(continued)*

1 Significant accounting policies (continued)

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Operating lease payments

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

1 Significant accounting policies (continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Changes in accounting policies

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, amendments to HKAS 27, Consolidated and separate financial statements and HK(IFRIC) 17, Distributions of non-cash assets to owners are relevant to the Group's financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendments to HKAS 27 in respect of acquisition of an additional interest and disposal of part of the Group's interest in a subsidiary but still retains control, which are accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners, have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the amendments to HKAS 27 (in respect of allocation of losses to non-controlling interests in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such losses arose in the current period.

- The impact of the HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction and there is no requirement to restate the amounts recorded in respect of previous such transactions.

Further details of these changes in accounting policy are as follows:

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

- HK(IFRIC) 17 requires distributions of non-cash assets to owners to be measured at the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying value. Previously the Group would have measured such distributions at the carrying value of the assets distributed. In accordance with the transitional provisions in HK(IFRIC) 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore previous periods have not been restated.

Notes to the financial statements *(continued)*

3 Turnover and segment reporting

(a) Turnover

The principal activities of the Group are property development and property investments. Turnover represents revenue from the sale of property units and rental income from investment property, net of business tax, analysed as follows:

	2010	2009
	RMB'000	*RMB'000*
Sale of property units	**18,105,453**	7,342,132
Rental income from investment property	**109,638**	71,319
	18,215,091	7,413,451

(b) Segment reporting

The Group manages its businesses based on development status of current projects, which are divided into completed projects held for sale, projects under development and investment property. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

(i) Completed projects held for sale

This segment includes projects which have been completed and the Group has obtained completion certificates for those projects.

(ii) Projects under development

This segment includes projects which are under development.

(iii) Investment property

This segment includes one project which has been completed and is held to earn rental income.

(c) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets and liabilities include all non-current assets and liabilities and current assets and liabilities with the exception of unallocated head office and corporate assets and liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments. Head office and corporate expenses are not allocated to individual segments.

Segment profit represents the profit after taxation generated by individual segments.

3 Turnover and segment reporting (continued)

(c) Segment results, assets and liabilities (continued)

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Management is provided with segment information concerning turnover, cost of properties sold, gross profit, valuation gain on investment property, net operating expenses, financial income, financial expenses, government grants, income tax, investment property, properties under development and completed properties held for sale, cash and cash equivalents, bank deposits in non-current assets, bank loans, and capital expenditure on fixed assets.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for purposes of resources allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below:

	Completed projects held for sale		Projects under development		Investment property		Total	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Income statement items								
Reportable segment revenue	18,105,453	7,342,132	–	–	109,638	71,319	18,215,091	7,413,451
Cost of properties sold	(8,958,349)	(3,556,393)	–	–	–	–	(8,958,349)	(3,556,393)
Reportable segment gross profit	9,147,104	3,785,739	–	–	109,638	71,319	9,256,742	3,857,058
Valuation gain on investment property	–	–	–	–	165,000	2,144,461	165,000	2,144,461
Operating income/(expenses), net	(537,016)	(229,073)	31,818	(73,855)	(12,524)	(4,603)	(517,722)	(307,531)
Financial income	110,226	35,188	40,304	95,880	439	823	150,969	131,891
Financial expenses	(89,901)	(81,550)	(1,121)	(12,092)	(35,021)	(6,215)	(126,043)	(99,857)
Government grants	43,584	23,795	–	–	606	–	44,190	23,795
Reportable segment profit before taxation	8,673,997	3,534,099	71,001	9,933	228,138	2,205,785	8,973,136	5,749,817
Income tax	(4,607,237)	(1,704,167)	(27,277)	(23,739)	(58,337)	(551,446)	(4,692,851)	(2,279,352)
Reportable segment profit/(loss)	4,066,760	1,829,932	43,724	(13,806)	169,801	1,654,339	4,280,285	3,470,465
Balance sheet items								
Investment property	–	–	–	–	3,085,000	2,920,000	3,085,000	2,920,000
Properties under development and completed properties held for sale	4,310,400	6,476,512	14,551,698	15,191,228	–	–	18,862,098	21,667,740
Cash and cash equivalents	9,133,533	2,233,776	7,628,566	5,398,684	126,202	10,537	16,888,301	7,642,997
Bank deposits in non-current assets	3,475,864	643,386	365,051	634,305	–	–	3,840,915	1,277,691
Bank loans	1,800,000	550,000	1,900,000	4,200,000	925,000	–	4,625,000	4,750,000
Reportable segment assets (including investment in joint ventures)	27,924,091	15,335,019	31,922,348	26,656,148	4,140,916	3,606,364	63,987,355	45,597,531
Reportable segment liabilities	24,522,362	12,365,241	15,462,439	14,590,533	2,266,774	1,902,023	42,251,575	28,857,797
Capital expenditure on fixed assets	6,106	3,523	50	1,996	–	775,539	6,156	781,058

Notes to the financial statements *(continued)*

3 Turnover and segment reporting (continued)

(d) Reconciliations of reportable segment profit or loss, assets and liabilities

	2010 *RMB'000*	2009 *RMB'000*
Profit		
Reportable segment profit	**4,280,285**	3,470,465
Elimination of intra-group profit	**(31,809)**	(45,993)
Unallocated head office and corporate expenses	**(476,893)**	(29,782)
Consolidated profit	**3,771,583**	3,394,690
Properties under development and completed properties held for sale		
Reportable segment properties under development and completed properties held for sale	**18,862,098**	21,667,740
Elimination of intra-group transactions	**(164,615)**	(146,945)
Consolidated properties under development and completed properties held for sale	**18,697,483**	21,520,795
Cash and cash equivalents		
Reportable segment cash and cash equivalents	**16,888,301**	7,642,997
Unallocated head office and corporate cash and cash equivalents	**836,620**	1,598,882
Consolidated cash and cash equivalents	**17,724,921**	9,241,879

3 Turnover and segment reporting (continued)

(d) Reconciliations of reportable segment profit or loss, assets and liabilities (continued)

	2010 *RMB'000*	2009 *RMB'000*
Bank loans		
Reportable segment bank loans	**4,625,000**	4,750,000
Unallocated head office and corporate bank loans	**4,007,915**	1,569,660
Consolidated bank loans	**8,632,915**	6,319,660
Assets		
Reportable segment assets	**63,987,355**	45,597,531
Elimination of intra-group balances	**(21,019,059)**	(12,293,596)
Unallocated head office and corporate assets	**4,962,136**	4,452,386
Consolidated total assets	**47,930,432**	37,756,321
Liabilities		
Reportable segment liabilities	**42,251,575**	28,857,797
Elimination of intra-group balances	**(20,915,600)**	(12,194,619)
Unallocated head office and corporate liabilities	**6,615,089**	3,650,616
Consolidated total liabilities	**27,951,064**	20,313,794

Notes to the financial statements *(continued)*

4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Financial income and financial expenses

	2010 RMB'000	2009 RMB'000
Financial income		
Interest income	**(153,707)**	(150,878)
Net foreign exchange gain	**(70,687)**	(48,499)
Net gain on derivative financial instruments	**–**	(34,316)
	(224,394)	(233,693)
Financial expenses		
Interest on bank loans wholly repayable within five years	**356,363**	248,993
Interest on bank loans wholly repayable above five years	**34,134**	–
Interest expenses on the Convertible Bonds	**185,511**	89,619
Less: Interest expense capitalised into properties under development*	**(310,094)**	(201,492)
	265,914	137,120
Bank charges and others	**26,437**	9,500
	292,351	146,620

* The borrowing costs were capitalised at a rate of 5.16% – 8.05% per annum (2009: 5.16% – 7.56%).

(b) Staff costs

	Note	2010 RMB'000	2009 RMB'000
Salaries, wages and other benefits		**178,122**	145,289
Contributions to defined contribution retirement plan		**10,852**	8,701
Equity-settled share-based payment expenses	24	**1,455**	9,648
		190,429	163,638

4 Profit before taxation (continued)

(c) Other items

	2010 RMB'000	2009 RMB'000
Depreciation	**18,302**	24,010
Auditors' remuneration		
– audit services	**6,937**	7,743
– tax services	**2,029**	1,701
– other services	**1,260**	1,406
Operating lease charges in respect of properties	**5,747**	1,658
Rentals receivable from investment properties less direct outgoings of RMB nil (2009: RMB nil)	**109,638**	71,319

5 Government grants

The Group received total government grants of RMB44,190,000 (2009: RMB23,795,000) in relation to certain completed projects from the Finance Bureau of Huairou County of Beijing, the Finance Bureau of Chongwen District of Beijing and the Finance Bureau of Dongcheng District of Beijing pursuant to the local regulations issued by the respective local governments.

6 Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	Note	2010 RMB'000	2009 RMB'000
PRC Corporate Income Tax			
– Provision for the year		**2,143,577**	1,022,324
– Under-provision in respect of prior years		**24,231**	30,785
Land Appreciation Tax		**3,025,314**	1,081,909
Deferred tax	*14(b)*	**(264,637)**	129,002
		4,928,485	2,264,020

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Company and the Company's subsidiaries registered in the BVI are not subject to any income tax.

(ii) In accordance with the Corporate Income Tax Law of the People's Republic of China, the income tax rate applicable to the Company's subsidiaries in the PRC is ranged from 22% to 25% (2009: 20% to 25%).

(iii) In accordance with the Land Appreciation Tax Law of the PRC, Land Appreciation Tax is levied at the properties developed by the Group for sale in the PRC. Land Appreciation Tax is charged on the appreciated amount at progressive rates ranged from 30% to 60%.

Notes to the financial statements *(continued)*

6 Income tax in the consolidated income statement (continued)

(a) Income tax in the consolidated income statement represents: (continued)

(iv) According to the Implementation Rules of the Corporate Income Tax Law of the People's Republic of China, the Company's subsidiaries in the PRC are levied a 10% withholding tax on dividends declared to their foreign investment holding companies arising from profit earned subsequent to 1 January 2008. In respect of dividends that are subject to the withholding tax, provision for withholding tax is recognised for the dividends that have been declared, and deferred tax liability is recognised for those to be declared in the foreseeable future.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010 *RMB'000*	2009 *RMB'000*
Profit before taxation	**8,700,068**	5,658,710
Income tax computed by applying the tax rate of 25% (2009: 25%) to profit before taxation	**2,175,017**	1,414,678
Tax effect of Land Appreciation Tax deductible for PRC Corporate Income Tax	**(756,329)**	(270,477)
Effect of withholding tax at 10% on the profits of the Group's PRC subsidiaries (Note 6(a)(iv))	**206,371**	–
Effect of differential tax rate on loss/(profit)	**48,861**	(34,944)
Tax effect of unused tax losses not recognised	**(6,694)**	3,787
Under-provision in prior years	**24,231**	30,785
Tax effect of non-deductible expenses	**211,714**	38,282
Provision for Land Appreciation Tax for the year	**3,025,314**	1,081,909
Actual tax expense	**4,928,485**	2,264,020

7 Directors' remuneration

Details of directors' remuneration are as follows:

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Retirement scheme contributions *RMB'000*	Sub-total *RMB'000*	Share-based payments *(Note 7(i))* *RMB'000*	Total *RMB'000*
2010						
Chairman						
Pan Shiyi	240	5,688	29	5,957	–	5,957
Executive directors						
Pan Zhang Xin Marita	240	5,145	–	5,385	–	5,385
Yan Yan	240	5,009	29	5,278	164	5,442
Wang Shaojian Sean (resigned on 31 May 2010)	100	2,274	–	2,374	61	2,435
Tong Ching Mau (appointed on 24 December 2010)	–	70	–	70	41	111
Independent non-executive directors						
Ramin Khadem	298	–	–	298	–	298
Cha Mou Zing Victor	255	–	–	255	–	255
Yi Xiqun	255	–	–	255	–	255
	1,628	18,186	58	19,872	266	20,138

Notes to the financial statements *(continued)*

7 Directors' remuneration (continued)

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Retirement scheme contributions *RMB'000*	Sub-total *RMB'000*	Share–based payments *(Note 7(i))* *RMB'000*	Total *RMB'000*
2009						
Chairman						
Pan Shiyi	240	5,191	37	5,468	–	5,468
Executive directors						
Pan Zhang Xin Marita	240	4,613	–	4,853	–	4,853
Yan Yan	240	4,647	37	4,924	1,044	5,968
Su Xin (resigned on 30 September 2009)	180	3,092	27	3,299	726	4,025
Wang Shaojian Sean	240	4,611	–	4,851	217	5,068
Independent non-executive directors						
Ramin Khadem	308	–	–	308	–	308
Cha Mou Zing Victor	220	–	–	220	–	220
Yi Xiqun	220	–	–	220	–	220
	1,888	22,154	101	24,143	1,987	26,130

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors of the Company waived or agreed to waive any remuneration during the year.

Note:

(i) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 1(o)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in Note 24.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2009: four) are directors whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other two (2009: one) individuals are as follows:

	2010 *RMB'000*	2009 *RMB'000*
Salaries and other emoluments	**7,502**	3,497
Retirement scheme contributions	**29**	37
Share-based payments	**127**	822
	7,658	4,356

The emoluments of the two (2009: one) individuals with the highest emoluments are within the following bands:

RMB	**2010** *Number of individuals*	2009 *Number of individuals*
3,500,001-4,000,000	**2**	–
4,000,001-4,500,000	–	1

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB171,078,000 (2009: RMB68,355,000) which has been dealt with in the financial statements of the Company.

Notes to the financial statements *(continued)*

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB3,636,156,000 (2009: RMB3,300,178,000) and the weighted average of 5,185,447,000 ordinary shares (2009: 5,187,003,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Note	**2010** **'000**	2009 '000
Issued ordinary shares at 1 January		**5,187,657**	5,187,657
Effect of treasury shares	*22(c)(i)*	**(2,210)**	(654)
Weighted average number of ordinary shares at 31 December		**5,185,447**	5,187,003

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB3,821,667,000 (2009: RMB3,389,797,000) and the weighted average number of ordinary shares of 5,675,558,000 shares (2009: 5,424,446,000), calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2010 ***RMB'000***	2009 *RMB'000*
Profit attributable to ordinary equity shareholders	**3,636,156**	3,300,178
After tax effect of effective interest on the liability component of the Convertible Bonds	**185,511**	89,619
Profit attributable to ordinary equity shareholders (diluted)	**3,821,667**	3,389,797

(ii) Weighted average number of ordinary shares (diluted)

	2010 ***'000***	2009 *'000*
Weighted average number of ordinary shares at 31 December	**5,185,447**	5,187,003
Effect of conversion of the Convertible Bonds	**489,724**	237,443
Effect of exercise of the share options	**387**	–
Weighted average number of ordinary shares (diluted) at 31 December	**5,675,558**	5,424,446

The share options granted to the employees did not have dilutive effect as at 31 December 2009.

11 Fixed assets – the Group

	Office premises RMB'000	Serviced apartment properties RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Sub-total RMB'000	Investment property RMB'000	Total RMB'000
Cost or valuation:							
At 1 January 2009	288,534	465,312	30,332	5,824	790,002	–	790,002
Additions	–	786	3,273	1,460	5,519	775,539	781,058
Transfer to properties under development and completed properties held for sale	–	(11,081)	–	–	(11,081)	–	(11,081)
Acquisition of subsidiaries	–	–	91	–	91	–	91
Disposals	–	–	(109)	(192)	(301)	–	(301)
Fair value adjustment	–	–	–	–	–	2,144,461	2,144,461
At 31 December 2009	288,534	455,017	33,587	7,092	784,230	2,920,000	3,704,230
Representing:							
Cost	–	455,017	33,587	7,092	495,696	–	495,696
Valuation – 2009	–	–	–	–	–	2,920,000	2,920,000
Valuation – 2008	288,534	–	–	–	288,534	–	288,534
	288,534	455,017	33,587	7,092	784,230	2,920,000	3,704,230
At 1 January 2010	288,534	455,017	33,587	7,092	784,230	2,920,000	3,704,230
Additions	–	–	6,152	4	6,156	–	6,156
Transfer to properties under development and completed properties held for sale	–	(129,351)	–	–	(129,351)	–	(129,351)
Acquisition of a subsidiary (Note 28)	–	–	247	2,052	2,299	–	2,299
Disposals	–	–	(99)	(2,574)	(2,673)	–	(2,673)
Fair value adjustment	–	–	–	–	–	165,000	165,000
At 31 December 2010	288,534	325,666	39,887	6,574	660,661	3,085,000	3,745,661
Representing:							
Cost	–	325,666	39,887	6,574	372,127	–	372,127
Valuation – 2010	–	–	–	–	–	3,085,000	3,085,000
Valuation – 2008	288,534	–	–	–	288,534	–	288,534
	288,534	325,666	39,887	6,574	660,661	3,085,000	3,745,661

Notes to the financial statements *(continued)*

11 Fixed assets – the Group (continued)

	Office premises *RMB'000*	Serviced apartment properties *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Sub-total *RMB'000*	Investment property *RMB'000*	Total *RMB'000*
Accumulated depreciation:							
At 1 January 2009	7,512	62,915	17,032	1,822	89,281	–	89,281
Charge for the year	6,845	11,423	4,403	1,339	24,010	–	24,010
Written back on transfer to properties under development and completed properties held for sale	–	(1,142)	–	–	(1,142)	–	(1,142)
Acquisition of subsidiaries	–	–	68	–	68	–	68
Written back on disposals	–	–	(15)	(183)	(198)	–	(198)
At 31 December 2009	14,357	73,196	21,488	2,978	112,019	–	112,019
At 1 January 2010	14,357	73,196	21,488	2,978	112,019	–	112,019
Charge for the year	6,845	6,964	3,477	1,016	18,302	–	18,302
Written back on transfer to properties under development and completed properties held for sale	–	(23,635)	–	–	(23,635)	–	(23,635)
Acquisition of a subsidiary (Note 28)	–	–	192	1,785	1,977	–	1,977
Written back on disposals	–	–	(49)	(2,114)	(2,163)	–	(2,163)
At 31 December 2010	21,202	56,525	25,108	3,665	106,500	–	106,500
Net book value:							
At 31 December 2010	267,332	269,141	14,779	2,909	554,161	3,085,000	3,639,161
At 31 December 2009	274,177	381,821	12,099	4,114	672,211	2,920,000	3,592,211

(a) Revaluation of investment properties

All investment properties of the Group were revalued as at 31 December 2010 and 2009 on an open market value basis by making reference to comparable sales transaction as available in the relevant market, and where appropriate, taking into account of the valuation based on the income capitalization approach. The valuations were carried out by CB Richard Ellis Ltd., a firm of independent qualified valuers in Hong Kong with recent experience in the location and category of property being valued.

11 Fixed assets – the Group (continued)

(b) Revaluation of office premises

The Group's office premises were revalued as at 31 December 2008 by Tongxin Assets Appraisal Co., Ltd., a firm of independent qualified valuer with recent experience in the location and category of property being valued, in the PRC, at their open market value. As at 31 December 2008, the revaluation surplus of RMB4,880,000 has been recognised in other comprehensive income and accumulated in the revaluation reserve of the Group, net of deferred tax. The carrying amount of the office premises of the Group as at 31 December 2010 did not materially differ from their fair value.

The carrying amount of the office premises of the Group as at 31 December 2010 would has been RMB120,557,000 (2009: RMB123,640,000) had they been carried at cost less accumulated depreciation.

(c) The analysis of net book value of properties

The net book values of investment property, office premises and serviced apartment properties in aggregate of RMB3,621,473,000 as at 31 December 2010 (2009: RMB3,575,998,000) were under medium-term leases in the PRC.

(d) Certain portion of the Group's investment properties were pledged against the bank loans, details are set out in Note 19.

12 Investments in subsidiaries – the Company

	2010 ***RMB'000***	2009 *RMB'000*
Unlisted shares, at cost	**294,423**	294,423

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of Company	**Place of establishment/ incorporation**	**Principal activities**	**Issued/ paid-in capital**	**Attributable equity interest Direct**	**Attributable equity interest Indirect**
Beijing ZhongHongTian Real Estate Co., Ltd. *	Beijing, the PRC	Development of SOHO Newtown project	USD15,000,000	–	54%
Beijing Redstone Newtown Real Estate Co., Ltd. *	Beijing, the PRC	Development of the Commune by the Great Wall project and operation of serviced apartment	USD10,000,000	–	95%
Hainan Redstone Industry Co., Ltd. *	Hainan, the PRC	Development of Boao Canal Village project	RMB20,000,000	–	98.1%
Beijing Redstone Jianwai Real Estate Development Co., Ltd. *	Beijing, the PRC	Development of Jianwai SOHO project	USD30,000,000	–	95%
SOHO China Leasing Co., Ltd. **	Beijing, the PRC	Property leasing and resale services	USD100,000	–	100%

Notes to the financial statements *(continued)*

12 Investments in subsidiaries – the Company (continued)

Name of Company	Place of establishment/ incorporation	Principal activities	Issued/ paid-in capital	Attributable equity interest Direct	Indirect
Beijing SOHO Properties Management Co., Ltd. **	Beijing, the PRC	Provision of consulting services	USD8,000,000	–	100%
Beijing Shanshi Real Estate Co., Ltd. *	Beijing, the PRC	Development of Guanghualu SOHO project	USD38,700,000	–	95%
Beijing SOHO Real Estate Co., Ltd. *	Beijing, the PRC	Development of Sanlitun SOHO project	USD99,000,000	–	95%
Beijing Chaowai SOHO Real Estate Co., Ltd. *	Beijing, the PRC	Development of Chaowai SOHO project	USD20,000,000	90%	9.5%
Beijing Millennium Real Properties Development Co., Ltd. ***	Beijing, the PRC	Development of Beijing Residency project	RMB96,000,000	–	100%
Beijing Yeli Real Properties Development Co., Ltd. ***	Beijing, the PRC	Development of Guanghualu SOHO II project	RMB10,000,000	–	100%
Beijing Kaiheng Real Estate Co., Ltd. *	Beijing, the PRC	Development of Chaoyangmen SOHO project	USD12,000,000	–	100%
Beijing Suo Tu Shi Ji Investment Management Co., Ltd. ***	Beijing, the PRC	Development of ZhongGuanCun SOHO project	RMB10,000,000	–	100%
Beijing Zhanpeng Century Investment Management Co., Ltd. ***	Beijing, the PRC	Investment in Tiananmen South (Qianmen) project	RMB50,000,000	–	100%

12 Investments in subsidiaries – the Company (continued)

Name of Company	Place of establishment/ incorporation	Principal activities	Issued/ paid-in capital	Attributable equity interest Direct	Attributable equity interest Indirect
SOHO Exchange Limited (formerly known as "MSREF Anderson")	Cayman Islands	Development of The Exchange-SOHO project	USD1,000	–	100%
Beijing Wangjing SOHO Real Estate Co., Ltd. *	Beijing, the PRC	Development of Wangjing SOHO project	USD99,000,000	–	100%
Beijing Bluewater Property Management Co., Ltd. **	Beijing, the PRC	Development of SOHO Nexus Centre project	USD120,000,000	–	100%
Shanghai Ding Ding Real Estate Development Co., Ltd. *	Shanghai, the PRC	Development of the Bund 204 Land project	USD135,000,000	–	61.506% *Note (i)*
SOHO (Shanghai) Investment Co., Ltd. ***	Shanghai, the PRC	Development of Hongqiao SOHO project	RMB200,000,000	–	100% *Note (ii)*

* The company is registered as a sino-foreign equity joint venture enterprise in the PRC.

** The company is registered as a wholly owned foreign enterprise in the PRC.

*** The company is registered as a limited liability company in the PRC.

(i) Shanghai Ding Ding Real Estate Development Co., Ltd. ("Shanghai Ding Ding")

On 28 June 2010, the Group acquired 90% of the equity interests of T&T International Investment Corporation ("T&T International"), which holds 68.34% of the equity interests in Shanghai Ding Ding, and consequently the Group indirectly acquired 61.506% of the equity interests in Shanghai Ding Ding. Shanghai Ding Ding is the project company holding the land use right of the Bund 204 Land located at the Bund, Shanghai, the PRC. The project has a planned total gross floor area of approximately 189,000 square meters. According to the cooperative joint venture contract and its supplementary agreement of Shanghai Ding Ding, T&T International is entitled to a total gross floor area of approximately 131,000 square meters and the other two non-controlling equity holders holding the remaining 31.66% equity interests of Shanghai Ding Ding is entitled to a total gross floor area of approximately 58,000 square meters.

T&T International and Shanghai Ding Ding are accounted for as subsidiaries of the Group and their financial statements are consolidated into the Company's consolidated financial statements since 28 June 2010. According to the cooperative joint venture contract and the supplementary agreement as mentioned above, the profits or losses and net assets relating to the gross floor area of approximately 58,000 square meters, which are attributable to the two non-controlling equity holders in Shanghai Ding Ding, are presented as non-controlling interests in the Company's consolidated financial statements.

(ii) SOHO (Shanghai) Investment Co., Ltd.

In 2010, SOHO (Shanghai) Investment Co., Ltd., a subsidiary of the Group, acquired the land use right to a parcel of land, Linkong Plot 15 Land situated in Shanghai Hongqiao, the PRC. This project was as known as Hongqiao SOHO after the acquisition by the Group.

Notes to the financial statements *(continued)*

13 Interest in jointly controlled entity – the Group

	2010 *RMB'000*	2009 *RMB'000*
Share of net assets	**1,211,900**	–

Details of the Group's interest in the jointly controlled entity are as follows:

Name of jointly controlled entity	Form of business structure	Place of incorporation	Principal activities	Particulars of paid-in capital/ registered capital	Proportion of ownership interest held by a subsidiary
Shanghai Hong Sheng Real Estate Development Co., Ltd.	Incorporated	Shanghai, the PRC	Development of Fu Xing Tian Di Centre project	RMB840,000,000	48.4761% *Note (i)*

(i) Shanghai Hong Sheng Real Estate Development Co., Ltd. ("Shanghai Hong Sheng")

In 2010, the Group entered into a cooperative framework agreement with a third party to acquire 48.4761% equity interests in Shanghai Hong Sheng, that develops Fu Xing Tian Di Centre project located at land lot No. 43, Lu Wan District, Shanghai, the PRC.

Summary financial information on jointly controlled entity – the Group's effective interest:

	2010 *RMB'000*
Non-current assets	30
Current assets	1,892,889
Non-current liabilities	(533,238)
Current liabilities	(147,781)
Net assets	1,211,900
Income	–
Expenses	–
Loss for the year	–

14 Income tax in the consolidated balance sheet – the Group

(a) Current taxation in the consolidated balance sheet represents:

	2010 RMB'000	2009 RMB'000
PRC Corporate Income Tax payable	**1,898,219**	767,241
Land Appreciation Tax payable	**5,068,491**	2,933,156
	6,966,710	3,700,397

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Note	**Tax losses** *RMB'000*	**Properties under development and completed properties held for sale** *RMB'000*	**Investment property** *RMB'000*	**Office premises** *RMB'000*	**Withholding tax on the profit of PRC subsidiaries** *RMB'000* *(Note 14(b)(ii))*	**Derivative financial instruments** *RMB'000*	**Total** *RMB'000*
At 1 January 2009		89,807	(23,167)	–	(39,682)	–	(9,735)	17,223
Credited/(charged) to profit and loss	*6(a)*	(63,137)	460,515	(536,115)	–	–	9,735	(129,002)
Acquisition of subsidiaries		65,003	–	–	–	–	–	65,003
At 31 December 2009		91,673	437,348	(536,115)	(39,682)	–	–	(46,776)
At 1 January 2010		91,673	437,348	(536,115)	(39,682)	–	–	(46,776)
Credited/(charged) to profit and loss	*6(a)*	(90,518)	490,061	(41,250)	–	(93,656)	–	264,637
Acquisition of a subsidiary	*28*	–	15,125	–	–	–	–	15,125
At 31 December 2010		1,155	942,534	(577,365)	(39,682)	(93,656)	–	232,986

(ii) The deferred tax liabilities recognised in the consolidated balance sheet as at 31 December 2010 relate to the withholding tax as described in Note 6(a)(iv) at the rate of 10% on the profit of the Company's PRC subsidiaries for the year ended 31 December 2010, which are to be distributed in the foreseeable future.

Notes to the financial statements *(continued)*

14 Income tax in the consolidated balance sheet – the Group (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

(iii) Reconciliation to the consolidated balance sheet:

	2010 RMB'000	2009 RMB'000
Net deferred tax assets recognised in the consolidated balance sheet	**1,019,420**	557,761
Net deferred tax liabilities recognised in the consolidated balance sheet	**(786,434)**	(604,537)
	232,986	(46,776)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses in certain subsidiaries of RMB243,122,000 as at 31 December 2010 (2009: RMB284,210,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant subsidiaries. As at 31 December 2010, RMB11,508,000, RMB24,648,000, RMB118,731,000, RMB44,354,000 and RMB43,881,000 of these tax losses will expire in 2011, 2012, 2013, 2014 and 2015, respectively.

(d) Deferred tax liabilities not recognised

As at 31 December 2010, temporary differences relating to the undistributed profits of the subsidiaries in the PRC amounted to RMB5,280,469,000 (2009: RMB3,850,685,000). Deferred tax liabilities of RMB528,047,000 (2009: RMB385,069,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

15 Properties under development and completed properties held for sale – the Group

	2010 RMB'000	2009 RMB'000
Properties under development	**14,816,008**	13,153,953
Completed properties held for sale	**3,881,475**	8,366,842
	18,697,483	21,520,795

15 Properties under development and completed properties held for sale – the Group (continued)

(a) The analysis of carrying value of leasehold land included in properties under development and completed properties held for sale is as follows:

	2010 RMB'000	2009 RMB'000
In the PRC		
– long lease	**209,739**	1,454,227
– medium-term lease	**14,362,693**	11,934,291
	14,572,432	13,388,518

(b) The amount of properties under development expected to be recovered after more than one year is analysed as follows:

	2010 RMB'000	2009 RMB'000
Properties under development	**13,243,249**	9,439,056

All of the other properties under development and completed properties held for sale are expected to be recovered within one year.

(c) The cost of properties sold for the year ended 31 December 2010 amounted to RMB8,958,349,000 (2009: RMB3,556,393,000).

(d) Certain portion of the Group's properties under development and completed properties held for sale were pledged against the bank loans, details are set out in Note 19.

16 Trade and other receivables

	Note	2010 RMB'000	2009 RMB'000
The Group			
Trade receivables	*(a)*	**360,211**	567,996
Other receivables		**433,876**	110,666
Less: allowance for doubtful debts	*(b)*	**(3,863)**	(7,720)
Loans and receivables	*(c)*	**790,224**	670,942
Deposits and prepayments		**1,006,408**	895,042
		1,796,632	1,565,984
The Company			
Amounts due from subsidiaries	*(c)*	**14,542,590**	13,499,024

Notes to the financial statements *(continued)*

16 Trade and other receivables (continued)

(a) Ageing analysis

The ageing analysis of trade receivables are as follows:

	2010 *RMB'000*	2009 *RMB'000*
Current	**291,972**	491,159
Less than 1 month past due	**3**	12,412
1 to 6 months past due	**6,400**	1,244
6 months to 1 year past due	**852**	16,554
More than 1 year past due	**60,984**	46,627
Amounts past due	**68,239**	76,837
	360,211	567,996

The Group's credit policy is set out in Note 25(a).

(b) Impairment of loans and receivables

Impairment losses in respect of loans and receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against loans and receivables directly (see Note 1(h)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2010 *RMB'000*	2009 *RMB'000*
At 1 January	**7,720**	1,650
Impairment loss (reversed)/recognised, net	**(3,857)**	6,070
At 31 December	**3,863**	7,720

At 31 December 2010, the Group's loans and receivables of RMB3,863,000 (2009: RMB7,720,000) were individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties and management assessed that no receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB3,863,000 (2009: RMB7,720,000) respectively were recognised. The Group does not hold any collateral over these balances.

16 Trade and other receivables (continued)

(c) Loans and receivables that are not impaired

The ageing analysis of loans and receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**563,106**	491,159	**14,542,590**	13,499,024
Less than 1 month past due	**30,227**	57,490		
1 to 6 months past due	**50,287**	8,504		
6 months to 1 year past due	**43,761**	42,572		
More than 1 year past due	**102,843**	71,217		
	227,118	179,783		
	790,224	670,942		

Receivables that were neither past due nor impaired relate to customers and debtors for whom there was no recent history of default.

Receivables that were past due but not impaired mainly relate to a number of independent customers to whom the title of the property units have not been transferred and debtors that have a good track record with the Group. Based on past experience, management believes that no impairment allowance 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 holds the title of the property units as collateral over the balance of trade receivables of RMB243,004,000 as at 31 December 2010 (2009: RMB446,947,000), and does not hold any collateral over the balance of other receivables.

17 Bank deposits – the Group

	Note	**2010**	2009
		RMB'000	*RMB'000*
Bank deposits for:			
Guarantees for mortgage loans	*(i)*	**1,109,093**	557,041
Guarantees for construction fees	*(ii)*	**160,095**	96,055
Guarantees for bank loans	*(iii)*	**2,571,727**	624,595
		3,840,915	1,277,691

Notes to the financial statements *(continued)*

17 Bank deposits – the Group (continued)

The above bank deposits are restricted as follows:

(i) The Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of the property units. As at 31 December 2010, the Group had deposits of RMB1,109,093,000 (2009: RMB557,041,000) as security for settlement of the mortgage instalments under these agreements. Should the mortgagors fail to pay the mortgage monthly instalments, the bank can draw down the security deposits up to the amount of outstanding mortgage instalments and demand the Group to repay the outstanding balance to the extent that the deposit balance is insufficient.

(ii) As at 31 December 2010, pursuant to a government regulation, the Group had deposits of RMB160,095,000 (2009: RMB96,055,000) as non-cancellable guarantees on construction fees payable to construction contractors. Should the Group fail to settle related construction fees, the bank can draw down the deposits to settle the relevant sums and demand the Group to repay the outstanding balance to the extent that the deposit balance is insufficient.

(iii) As at 31 December 2010, the Group had deposits of RMB2,571,727,000 (2009: RMB624,595,000) as non-cancellable guarantees on bank loans. Should the Group fail to settle the bank loans, the bank can draw down the deposits to settle the relevant sums and demand the Group to repay the outstanding balance to the extent that the deposit balance is insufficient.

18 Cash and cash equivalents

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash on hand	**1,121**	1,805	**–**	–
Cash at bank and other financial institutions	**9,899,550**	5,602,951	**457,312**	379,952
Term deposits with banks and other financial institutions	**7,824,250**	3,637,123	**–**	682,820
Cash and cash equivalents in the balance sheet	**17,724,921**	9,241,879	**457,312**	1,062,772
Less: Term deposits with banks and other financial institutions over 3 months	**3,690,424**	2,119,111		
Cash and cash equivalents in the consolidated cash flow statements	**14,034,497**	7,122,768		

19 Bank loans

(a) The bank loans were repayable as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year or on demand	**2,580,744**	550,000	**680,744**	–
After 1 year but within 2 years	**3,323,222**	2,400,000		
After 2 years but within 5 years	**1,803,949**	3,369,660		
After 5 years	**925,000**	–		
	6,052,171	5,769,660		
	8,632,915	6,319,660		

The bank loans were secured as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Secured	**6,428,949**	4,750,000	**–**	–
Unsecured	**2,203,966**	1,569,660	**680,744**	–
	8,632,915	6,319,660	**680,744**	–

(b) The following items were pledged and entities or individuals provided guarantees to secure and guarantee certain bank loans granted to the Group at 31 December:

(i) As at 31 December 2010, RMB4,625,000,000 bank loans (2009: RMB4,750,000) were secured by following items:

	2010	2009
	RMB'000	*RMB'000*
Properties under development and completed properties held for sale	**4,310,772**	3,660,569
Investment properties	**3,085,000**	–
Bank deposits	**503,741**	624,595
	7,899,513	4,285,164

Notes to the financial statements *(continued)*

19 Bank loans (continued)

(b) The following items were pledged and entities or individuals provided guarantees to secure and guarantee certain bank loans granted to the Group at 31 December (continued):

(ii) As at 31 December 2010, RMB367,026,000 bank loans (2009: RMB nil) were secured by the shares of three subsidiaries of the Group, Star Well Industrial Limited, Rikarda International Limited and Rakarta International Limited.

(iii) As at 31 December 2010, RMB1,436,923,000 bank loans (2009: RMB nil) were secured by the shares of Sure Fancy Investment Limited, the subsidiary of the Group, and a restricted bank deposit of RMB2,067,986,000, and guaranteed by Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita (see Note 27(c)(ii)).

(c) The effective interest rates per annum on bank loans at amortised cost are as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	%	%	**%**	%
Bank loans included in current liabilities	**2.7%-5.16%**	5.92%	**2.7%**	–
Bank loans included in non-current liabilities	**2.03%-8.05%**	2.00%-5.41%	**–**	–

20 Trade and other payables – the Group

	Note	2010 RMB'000	2009 RMB'000
Accrued expenditure on land and construction	*(i)*	**806,709**	1,827,479
Consideration payable for acquisition of subsidiaries and jointly controlled entity		**621,461**	16,320
Amounts due to related parties	*27(a)*	**350,628**	–
Others		**605,870**	267,420
Financial liabilities measured at amortised costs		**2,384,668**	2,111,219
Sales deposits	*(ii)*	**6,720,091**	5,314,274
Other taxes payable	*(iii)*	**201,686**	282,683
		9,306,445	7,708,176

Notes:

(i) These accrued expenditure payables on land and construction are expected to be settled within a year.

The ageing analysis of accrued expenditure on land and construction is as follows:

	2010 RMB'000	2009 RMB'000
Due within 1 month or on demand	**134,318**	350,494
Due after 1 month but within 3 months	**672,391**	1,476,985
	806,709	1,827,479

(ii) Sales deposits represented proceeds received on property unit sales that have not been recognised as revenue in accordance with the Group's revenue recognition policy.

(iii) Other taxes payable mainly comprised business tax payable, deed tax payable, urban real estate tax payable, stamp duty payable and withholding tax payable.

Notes to the financial statements *(continued)*

21 Convertible bonds

On 2 July 2009, the Company issued convertible bonds (the "Convertible Bonds") due 2014, bearing interest at the rate of 3.75% per annum. The aggregate principal amount of the Convertible Bonds issued is Hong Kong dollars ("HKD") 2,800,000,000. Each bond will at the option of the holder be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 11 August 2009 up to and including 25 June 2014 into the Company's fully paid ordinary shares with a par value of HKD0.02 each at an initial conversion price of HKD5.88 per share subject to adjustment for, amongst other things, consolidation, subdivision or reclassification of shares, capitalisation of profits or reserve, capital distribution, right issues, issues at less than current market price, modification of rights of conversion, other offers to shareholders and other events which have a dilutive effect on the issued share capital of the Company. The interest is payable semi-annually. The Convertible Bonds are listed on Singapore Stock Exchange Securities Trading Limited.

As at 31 December 2010, the conversion price of the Convertible Bonds was adjusted to HKD5.60 per share as a result of the final dividend of 2009 and the interim dividend of 2010 declared during the year ended 31 December 2010.

The initial recognition of the liability component of the Convertible Bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Interest expense is calculated using the effective interest method by applying the effective interest rate of 9.32% to the liability component. The excess of proceeds from the issuance of the Convertible Bonds, net of issuance costs, over the amount initially recognised as the liability component is recognised as the capital reserve in equity. The initial carrying amounts of liability and equity component of the Convertible Bonds were RMB1,914,959,000 and RMB514,395,000 upon issuance, respectively.

As at 31 December 2010, the carrying amounts of the liability component, including the accrued interests, and the equity component of the Convertible Bonds were RMB1,984,828,000 (2009: RMB1,958,783,000) and RMB514,395,000 (2009: RMB514,395,000), respectively.

22 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2009		107,485	11,424,236	867	35,891	(1,071,499)	97,186	628,258	11,222,424
Total comprehensive income for the year		–	–	–	–	(20,187)	–	1,061,944	1,041,757
Equity component of the Convertible Bonds	21	–	–	–	514,395	–	–	–	514,395
Dividends approved in respect of the previous year	22(b)	–	–	–	–	–	–	(518,766)	(518,766)
Equity settled share-based transactions	24	–	–	–	9,648	–	–	–	9,648
At 31 December 2009		107,485	11,424,236	867	559,934	(1,091,686)	97,186	1,171,436	12,269,458
At 1 January 2010		**107,485**	**11,424,236**	**867**	**559,934**	**(1,091,686)**	**97,186**	**1,171,436**	**12,269,458**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(476,977)**	**-**	**1,430,035**	**953,058**
Dividends approved in respect of the previous year	22(b)	**-**	**-**	**-**	**-**	**-**	**-**	**(1,660,050)**	**(1,660,050)**
Equity settled share-based transactions	24	**-**	**-**	**-**	**1,455**	**-**	**-**	**-**	**1,455**
At 31 December 2010		**107,485**	**11,424,236**	**867**	**561,389**	**(1,568,663)**	**97,186**	**941,421**	**11,563,921**

Notes to the financial statements *(continued)*

22 Capital, reserves and dividends (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2010 RMB'000	2009 RMB'000
Interim dividend declared and paid of RMB0.12 per ordinary share (2009: RMB nil)	**622,519**	–
Final dividend proposed after the balance sheet date of RMB0.14 per ordinary share (2009: RMB0.20 per ordinary share)	**726,272**	1,037,531
	1,348,791	1,037,531

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2010 RMB'000	2009 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.20 per share (2009: RMB0.10 per share)	**1,037,531**	518,766

(c) Share capital

	Note	2010		2009	
		No. of shares ('000)	**Share capital RMB'000**	No. of shares ('000)	Share capital RMB'000
Authorised:					
Ordinary shares of HKD0.02 each		**7,500,000**		7,500,000	
Issued and fully paid:					
At 1 January and 31 December		**5,187,657**	**107,485**	5,187,657	107,485
Outstanding:					
At 1 January		**5,185,447**	**107,485**	5,187,657	107,485
Treasury shares	*(i)*	**–**	**–**	(2,210)	–
At 31 December		**5,185,447**	**107,485**	5,185,447	107,485

22 Capital, reserves and dividends (continued)

(c) Share capital (continued)

(i) Treasury shares

On 14 September 2009, the Group acquired 2,210,000 shares of the Company on market, at a total consideration of HKD9,960,300, for the purpose of setting up an employees' share award scheme in which certain senior management personnel (including any executive directors) of the Group would be entitled to participate. The purpose of the employees' share award scheme is to give incentive to participants in order to retain them for the continued development of the Group. The shares are held as treasury shares and have been deducted from total equity attributable to equity shareholders of the Company.

The aforesaid employees' share award scheme was launched by the Group on 23 December 2010. No employees have been granted shares under the share award scheme as at the date of this report.

(ii) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price	2010 *Number*	2009 *Number*
8 October 2008 to 7 October 2013	HKD8.30	**8,405,280**	10,190,575
30 January 2009 to 29 January 2014	HKD6.10	**4,712,000**	5,818,000
30 June 2009 to 29 June 2014	HKD4.25	**580,000**	1,080,000
		13,697,280	17,088,575

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in Note 24 to the financial statements.

(d) Nature and purpose of reserves

(i) Share premium

The share premium account is governed by the Cayman Companies Law and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to equity shareholders; (b) paying up unissued shares of the Company to be issued to equity shareholders as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the Company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the Company.

No distribution or dividend may be paid to equity shareholders out of share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

The capital reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company (see Note 24) and the equity component of the Convertible Bonds (see Note 21).

Notes to the financial statements *(continued)*

22 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 1(s).

(iv) Revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for office premises in Note 1(g).

The revaluation reserve of the Company in respect of office premises is distributable to the extent of RMB38,986,000 (2009: RMB38,986,000).

(v) General reserve fund

Pursuant to the Articles of Association of the Company's subsidiaries in the PRC, appropriations to the general reserve fund were made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. The percentage for this appropriation was decided by the directors of the subsidiaries. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

(e) Distributability of reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB941,421,000 (2009: RMB1,171,436,000), excluding the share premium and the distributable revaluation reserve as disclosed in Note 22(d)(i) and 22(d)(iv), respectively. After the balance sheet date the directors proposed a final dividend of RMB14 cents per ordinary share (2009: RMB20 cents per ordinary share), amounting to RMB726,272,000 (2009: RMB1,037,531,000). This dividend has not been recognised as a liability at the balance sheet date.

(f) Acquisition of non-controlling interests

During the year ended 31 December 2009, the Group acquired the non-controlling interests on certain subsidiaries with an aggregate book value of RMB nil at a total consideration of RMB2,205,000. The excess of consideration over the book value of RMB2,205,000 was treated as an equity transaction.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can fund its development and construction of real estate projects, and continue to provide returns for shareholders, by pricing properties commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to strictly control the debt level. The Group maintains a strategy on acquiring land only if the project development can commence within a short period of time so as to minimise the time period between acquisition and development of the acquired land, thus the Group's capital can be efficiently deployed.

Consistent with industry practice, the Group monitors its capital structure on the basis of a gearing ratio, which was unchanged from 2007, as defined by the Group, being the total of bank and interest bearing borrowings (including convertible bonds) divided by the total assets. As at 31 December 2010, the gearing ratio of the Group was 22.15% (2009: 21.93%).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 Employee benefit plan

The Group participates in a defined contribution retirement scheme established by the Beijing Municipal Labour Bureau and Shanghai Municipal Labour Bureau for its staff. The Group was required to make contributions to the retirement scheme at 20% and 22% of the gross salaries of its staff in Beijing and Shanghai, respectively, during the years ended 31 December 2010 and 2009.

The Group has no other obligation for the payment of post-retirement benefits beyond the contributions described above.

24 Equity settled share-based transactions

The Company has adopted a Pre-IPO share option scheme and an IPO share option scheme on 14 September 2007, whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at HKD1 consideration to subscribe for shares of the Company. The options vest in a period of three years from the date of grant and are then exercisable within a period of six years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 8 October 2007	1,573,750	Three years from the date of grant	6 years
– on 30 January 2008	1,124,000	Three years from the date of grant	6 years
– on 30 June 2008	500,000	Three years from the date of grant	6 years
Options granted to employees:			
– on 8 October 2007	10,484,250	Three years from the date of grant	6 years
– on 30 January 2008	6,135,000	Three years from the date of grant	6 years
– on 30 June 2008	580,000	Three years from the date of grant	6 years
Total share options	20,397,000		

Notes to the financial statements *(continued)*

24 Equity settled share-based transactions (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2010		2009	
	Weighted average exercise price *HKD*	Number of options *'000*	Weighted average exercise price *HKD*	Number of options *'000*
Outstanding at the beginning of the year	7.30	17,089	7.30	19,060
Forfeited during the year	6.99	(3,392)	7.37	(1,971)
Outstanding at the end of the year	7.37	13,697	7.30	17,089
Exercisable at the end of the year	7.59	11,933	7.76	9,093

The options outstanding at 31 December 2010 and 2009 had an exercise price of HKD8.30, HKD6.10 or HKD4.25 and a weighted average remaining contractual life of 35 months (2009: 47 months).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes Model.

	Granted on 30 June 2008	Granted on 30 January 2008	Granted on 8 October 2007
Fair value at measurement date	HKD1.51	HKD2.24	HKD3.25
Share price	HKD4.25	HKD6.10	HKD8.30
Exercise price	HKD4.25	HKD6.10	HKD8.30
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes Model)	49.36%	46.35%	45.91%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	4 years	4 years	4 years
Expected dividends	2.278%	0.5192%	0.478%
Risk-free interest rate (based on Exchange Fund Notes)	3.111%	1.980%	3.9275%

The expected volatility is based on the historic volatility of the share price over the most recent period, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on the dividends policies of the Company.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

25 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. The Group would not release the property ownership certificates to the buyers before the buyers finally settle the selling price.

As at 31 December 2010 and 2009, the Group had no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

(b) Liquidity risk

Historically, the Group relied to a great extent on proceeds received from pre-sale of property units (sold in advance of the completion of the real estate projects) to fund its development and construction of real estate projects. As there is no assurance that proceeds received from future pre-sales of the Group's current real estate projects will be sufficient to meet the Group's needs, the Group's operating plan requires it to raise additional funds to finance the development and construction of its current real estate projects. If the Group is unable to raise additional equity or debt financing, the Group's expansion plans and operations might need to be curtailed.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses, issuing convertible bonds, and the raising of loans to cover expected cash demands, subject to approval by the Company's board of directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term.

Notes to the financial statements *(continued)*

25 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

	2010 Contractual undiscounted cash outflow						2009 Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Balance sheet carrying amount	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The Group											
Bank loans	(2,923,484)	(3,505,539)	(2,948,027)	(1,295,116)	(10,672,166)	8,632,915	(813,203)	(2,620,147)	(3,413,612)	(6,846,962)	6,319,660
Convertible bonds	(89,348)	(89,348)	(2,517,122)	-	(2,695,818)	1,984,828	(92,450)	(92,450)	(2,696,470)	(2,881,370)	1,958,783
Contract retention payables	-	(48,251)	(225,481)	-	(273,732)	273,732	–	(164)	(22,077)	(22,241)	22,241
Financial liabilities measured at amortised costs	(2,384,668)	-	-	-	(2,384,668)	2,384,668	(2,111,219)	–	–	(2,111,219)	2,111,219
	(5,397,500)	(3,643,138)	(5,690,630)	(1,295,116)	(16,026,384)	13,276,143	(3,016,872)	(2,712,761)	(6,132,159)	(11,861,792)	10,411,903
The Company											
Bank loans	(684,828)	-	-	-	(684,828)	680,744	–	–	–	–	–
Convertible bonds	(89,348)	(89,348)	(2,517,122)	-	(2,695,818)	1,984,828	(92,450)	(92,450)	(2,696,470)	(2,881,370)	1,958,783
Other payables	(59,714)	-	-	-	(59,714)	59,714	(22,419)	–	–	(22,419)	22,419
Amounts due to subsidiaries	(1,032,489)	-	-	-	(1,032,489)	1,032,489	(683,982)	–	–	(683,982)	683,982
	(1,866,379)	(89,348)	(2,517,122)	-	(4,472,849)	3,757,775	(798,851)	(92,450)	(2,696,470)	(3,587,771)	2,665,184

25 Financial risk management and fair values (continued)

(c) Interest rate risk

The interest rates of the Group's bank loans, convertible bonds and interest-bearing advances to/from related parties are disclosed in Note 19, Note 21 and Note 27, respectively. The annual interest rates of the Group's deposits at bank ranged from 0.36% to 2.50% as at 31 December 2010 (2009: 0.36% to 1.53%).

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in borrowing interest rates for bank loans and convertible bonds interest rate, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB30,853,000 (2009: RMB22,946,000) and would increase/decrease the Group's properties under development and completed properties held for sale by approximately RMB40,611,000 (2009: RMB36,962,000). In addition, it is estimated that a general increase/decrease of 100 basis points in bank deposit interest rates for foreign currency deposits other than RMB, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB8,065,000 (2009: RMB9,341,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 2009.

(d) Foreign currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through PBOC or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

All the revenue-generating operations of the Group are transacted in RMB. The Group is exposed to foreign currency risk on financing transactions denominated in currencies other than RMB and HKD. Depreciation or appreciation of the RMB and HKD against foreign currencies can affect the Group's results. The Group did not hedge its currency exposure.

Notes to the financial statements *(continued)*

25 Financial risk management and fair values (continued)

(d) Foreign currency risk (continued)

Included in cash and cash equivalents and bank loans in the consolidated balance sheet and the Company's balance sheet as at 31 December 2010 and 2009, the amounts denominated in currencies other than the functional currency of the entities to which they relate were as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	'000	*'000*	***'000***	*'000*
United States Dollars ("USD")				
– Cash and cash equivalents	**123,775**	236,099	**58,586**	155,399
– Bank loans	**(511,000)**	(230,000)	**–**	–

5% increase or decrease in USD exchange rate against RMB, assuming such change had occurred as at 31 December 2010, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB128,869,000 (2009: would not have a significant impact on the Group's results of operation and financial position).

(e) Fair values

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009.

The method and major assumptions used in estimating the fair value of the share options granted to employees of the Group are set out in Note 24.

Forward exchange contracts are either market to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

26 Commitments and contingent liabilities

(a) Commitments

Commitments in respect of properties under development outstanding at 31 December not provided for in the financial statements were as follows:

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Contracted for	**4,819,135**	1,082,896
Authorised but not contracted for	**5,496,593**	3,336,512
	10,315,728	4,419,408

(b) Guarantees

The Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of property units. The Group has given guarantees on mortgage loans provided to the buyers by these banks. For most residential mortgages, the guarantees will be released when the property title deeds are pledged to banks as security for the respective mortgage loans, which generally take place within one year after the property units are delivered to the buyers. For some mortgage loans, the agreements with the banks stipulate that the guarantee periods are generally 7 to 17 years from the effective date of the mortgage loan contract. The amount of guarantees relating to such agreements was approximately RMB4,450,000 as at 31 December 2010 (2009: RMB18,317,000). The total amount of mortgages outstanding which are guaranteed by the Company's subsidiaries, including the amount of guarantees with guarantee periods of generally 7 to 17 years mentioned above was RMB6,587,052,000 as at 31 December 2010 (2009: RMB3,701,817,000).

As at 31 December 2010, the Company provided a guarantee to a subsidiary with respect to its bank loan of RMB1,523,222,000 (2009: RMB1,569,660,000).

Notes to the financial statements *(continued)*

26 Commitments and contingent liabilities (continued)

(c) Warranty against defects of properties

Properties purchased by buyers are provided with various warranties of term between one to five years against certain defects as stipulated in the PRC laws and regulations which are covered by back-to-back warranties provided by the relevant contractors of the projects.

(d) Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the normal course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the directors believe that any resulting liabilities will not have a material adverse effect on the financial position, liquidity, or operating results of the Group.

(e) Investment properties and properties held for sale

The Group leases out investment properties and certain properties held for sale under operating leases. The leases typically run for an initial period of 1 to 8 years, with an option to renew the lease after that date at which time all terms are renegotiated.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2010 *RMB'000*	2009 *RMB'000*
Within 1 year	**117,457**	146,834
After 1 year but within 5 years	**261,243**	358,649
After 5 years	**2,099**	6,725
	380,799	512,208

27 Material related party transactions

(a) Amounts due to related parties, and corresponding transactions

Amounts due to related parties, included in current liabilities, comprise:

	Note	2010 RMB'000	2009 RMB'000
Shanghai Yi Dian	*(i)*	**151,254**	–
Shanghai Rural Commercial Bank	*(i)*	**151,254**	–
Mr. Pan Shiyi	*(ii)*	**48,120**	–
		350,628	–

(i) The balances as at 31 December 2010 mainly represented the advances of RMB302,508,000 from Shanghai Yi Dian Holdings (Group) Co., Ltd. ("Shanghai Yi Dian") and Shanghai Rural Commercial Bank, the non-controlling equity holders of Shanghai Ding Ding which were incurred before the acquisition by the Group. The advances were interest-free, unsecured and had no fixed term of repayment.

(ii) The balances as at 31 December 2010 represented the dividend payable to Mr. Pan Shiyi, the non-controlling shareholder of Beijing Shanshi Real Estate Co., Ltd. ("Beijing Shanshi") and Beijing SOHO Real Estate Co., Ltd. ("Beijing SOHO") which was declared by Beijing Shanshi in September 2010 and Beijing SOHO in December 2010, respectively.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 7 and certain of the highest paid employees as disclosed in Note 8 is as follows:

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	**32,321**	34,528
Post-employment benefits	**112**	175
Share-based payments	**520**	3,453
	32,953	38,156

Total remuneration is included in "Staff costs" (see Note 4(b)).

Notes to the financial statements *(continued)*

27 Material related party transactions (continued)

(c) Other related party transactions

(i) Guarantees provided to the Group

Beijing Redstone Industry Co., Ltd. ("Redstone Industry"), a company controlled by Mr. Pan Shiyi, entered into agreements with certain banks in 1998 and 1999 with respect to guarantees for mortgage loans provided to certain buyers of the Group's properties. Redstone Industry provided guarantees amounting to RMB21,831,000 for these buyers as at 31 December 2010 (2009: RMB46,835,220). The guarantee period generally ranged from 2 to 17 years.

(ii) Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita entered into guarantee agreements with a bank with respect to the long-term bank loans amounted to RMB1,436,923,000 as at 31 December 2010 provided to the Group. The guarantees will be released upon the repayment of the bank loans.

(iii) Property purchase contract between Mrs. Pan Zhang Xin Marita and Beijing Redstone Newtown Real Estate Co., Ltd. ("Redstone Newtown")

Tianjin Jingshi Investment Management & Consulting Co., Ltd. ("Tianjin Jingshi"), a company controlled by Mrs. Pan Zhang Xin Marita, and Redstone Newtown, a subsidiary of the Group, entered into a property purchase contract on 28 April 2009, pursuant to which Tianjin Jingshi agreed to purchase a unit in the Commune by the Great Wall project for a consideration of RMB15,300,000, which was settled in 2009.

28 Acquisition of subsidiaries

In 2010, the Group acquired 90% of the equity interests of T&T International (see Note 12(i)). The assets acquired and liabilities assumed did not constitute a business as defined in HKFRS 3 and, therefore, these acquisitions have been accounted for as assets acquisition. The acquisitions had the following effect on the Group's assets and liabilities on the acquisition dates:

	RMB'000
Property and equipment	322
Deferred tax assets	15,125
Properties under development and completed properties held for sale	2,934,717
Trade and other receivables	437
Cash and cash equivalents	57,114
Trade and other payables	(639,939)
Taxation	(5,216)
Non-controlling interests	(409,149)
Net assets and liabilities	1,953,411
Cash consideration	1,953,411
Consideration payables	(390,682)
Cash acquired	(57,114)
Net cash outflow	1,505,615

29 Critical accounting judgements in applying the Group's accounting policies

Estimates and judgements used in preparing the accounts are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities mainly include those related to property development activities.

(a) Land appreciation taxes

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

The Group is subject to land appreciation taxes in the PRC which has been included in income tax of the Group. However, the Group has not finalised its land appreciation tax returns with the tax authorities for certain property development projects of the Group. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

(b) Provision for properties under development and completed properties held for sale

As explained in Note 1(i), the Group's properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion in case for properties under development, and the costs to be incurred in selling the properties based on prevailing market conditions.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in provision for properties under development and completed properties held for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

In addition, given the volatility of the PRC property market and the unique nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than estimated at the balance sheet date. Any increase or decrease in the provision would affect profit or loss in future years.

(c) Recognition and allocation of construction cost on properties under development

Development costs of properties are recorded as properties under development during construction stage and will be transferred to profit or loss upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group typically divides the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated market value of each phase as a percentage of the total estimated market value of the entire project, or if the above is not practicable, the common costs are allocated to individual phases based on saleable area.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

Notes to the financial statements *(continued)*

29 Critical accounting judgements in applying the Group's accounting policies (continued)

(d) Impairment for property and equipment

If circumstances indicate that the net book value of a property or equipment may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised to reduce the carrying amount to the recoverable amount in accordance with the accounting policy for impairment of property and equipment as described in Note 1(h)(ii). The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of future income and operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future income and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(e) Valuation of investment property

As described in Note 11(a), investment properties are stated at fair value based on the valuation performed by an independent firm of professional valuers after taking into consideration the market evidence of transaction prices, and where appropriate, the rental income allowing for reversionary income potential.

In determining the fair value, the valuers have based on the market conditions existing at the balance sheet date or where appropriate, a method of valuation which involves, inter alia, certain estimates including market prices, current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, the management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(f) Impairment for loans and receivables

The Group estimates impairment losses for loans and receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the loans and receivables balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(g) Derivative financial instruments

In determining the fair value of the derivative financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2010

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendment to HKAS 32, Financial instruments: Presentation – Classification of rights issues	1 February 2010
HK(IFRIC) 19, Extinguishing financial liabilities with equity instruments	1 July 2010
Amendment to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards – Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Revised HKAS 24, Related party disclosures	1 January 2011
Amendments to HK(IFRIC) 14, HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement	1 January 2011
Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards – Severe hyperinflation and removal of fixed date for first-time adoptors	1 July 2011
Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers of financial assets	1 July 2011
Amendments to HKAS 12, Income taxes – Deferred tax: Recovery of underlying assets	1 January 2012
HKFRS 9, Financial instruments (2009) Basis for conclusions on HKFRS 9 (2009) Amendments to other HKFRSs and guidance on HKFRS 9 (2009)	1 January 2013
HKFRS 9, Financial instruments (2010) Basis for conclusions on HKFRS 9 (2010) Implementation guidance on HKFRS 9 (2010)	1 January 2013

Notes to the financial statements *(continued)*

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2010 (continued)

The Group is in the process of making an assessment of what the impact of these amendments, new standards and Interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

31 Ultimate holding company

At 31 December 2010, the directors consider the ultimate holding company to be Capevale Limited, which is incorporated in the Cayman Islands. This entity does not produce financial statements available for public use.

32 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in the current year.

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