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恒力商業地產

**恒力商業地產(集團)有限公司**

# HENGLI COMMERCIAL PROPERTIES (GROUP) LIMITED

*(formerly known as Hengli Properties Development (Group) Limited)*

*(Incorporated in Bermuda with limited liability)*

**(Stock code : 169)**

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The Board of Directors (the "Board") of Hengli Commercial Properties (Group) Limited (the "Company") is pleased to announce the consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 as follows:

### CONSOLIDATED INCOME STATEMENT

*for the year ended 31 December 2011*
*(Expressed in Hong Kong Dollars)*

| | Note | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|---|
| ***Continuing operations*** | | | |
| **Turnover** | 4 | **—** | — |
| Gain on repurchase of convertible bond | 17 | **100,669** | — |
| Valuation gain on investment properties under development | | **215,701** | — |
| Other revenue and net income | 5 | **23,194** | 18,990 |
| Selling, administrative and other operating expenses | | **(59,933)** | (32,810) |
| **Profit/(loss) from operations** | | **279,631** | (13,820) |
| Finance costs | 6(a) | **(130,286)** | (119,611) |
| **Profit/(loss) before taxation** | 6 | **149,345** | (133,431) |
| Income tax (expense)/credit | 7 | **(17,626)** | 15,969 |
| **Profit/(loss) from continuing operations** | | **131,719** | (117,462) |
| ***Discontinued operations*** | 8 | | |
| Results of discontinued operations | | **516** | 37,682 |
| Net gain on disposal of subsidiaries | | **62,460** | — |
| **Profit/(loss) for the year** | | **194,695** | (79,780) |

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Attributable to:** | | | |
| Equity shareholders of the Company (from continuing operations: $123,559,000 (2010: loss of $117,343,000)) | | **185,411** | (102,911) |
| Non-controlling interests (from continuing operations: $8,160,000 (2010: loss of $118,000)) | | **9,284** | 23,131 |
| **Profit/(loss) for the year** | | **194,695** | (79,780) |
| **Earnings/(loss) per share (HK cents)** | *9* | | |
| ***From continuing operations and discontinued operations*** | | | |
| Basic | | **8.0** | (6.2) |
| Diluted | | **3.1** | N/A |
| ***From continuing operations*** | | | |
| Basic | | **5.3** | (7.0) |
| Diluted | | **2.5** | N/A |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*at 31 December 2011*
*(Expressed in Hong Kong Dollars)*

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| — Property, plant and equipment | | **4,420** | 18,540 |
| — Prepaid lease payments | | **24,940** | 28,622 |
| — Investment properties under development | *10* | **1,683,501** | — |
| — Investment properties | | **—** | 101,771 |
| | | **1,712,861** | 148,933 |
| Goodwill | | **105,531** | 99,861 |
| Available-for-sale investment | | **—** | 2,368 |
| Deferred tax assets | | **—** | 4,397 |
| | | **1,818,392** | 255,559 |
| **Current assets** | | | |
| Loan to a director | | **—** | 324,543 |
| Properties under development | *11* | **3,846,822** | 4,090,776 |
| Properties held for sale | | **—** | 108,229 |
| Deposits for land use right purchase | | **695,010** | 222,554 |
| Trade and other receivables | *12* | **267,479** | 93,086 |
| Derivative financial instruments | *17* | **60,264** | — |
| Tax prepayments | | **120,007** | 54,736 |
| Restricted bank deposits | | **349,423** | 344,637 |
| Cash at bank and in hand | | **58,017** | 209,835 |
| | | **5,397,022** | 5,448,396 |
| **Current liabilities** | | | |
| Trade and other payables | *13* | **873,584** | 374,261 |
| Receipts in advance | | **2,051,717** | 1,082,012 |
| Loans from related parties | *14* | **377,479** | — |
| Loans from financial institutions | *15* | **781,373** | 1,264,082 |
| Current taxation | | **2,749** | 80,082 |
| | | **4,086,902** | 2,800,437 |
| **Net current assets** | | **1,310,120** | 2,647,959 |
| **Total assets less current liabilities** | | **3,128,512** | 2,903,518 |

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Loans from financial institutions | 15 | **338,058** | 167,584 |
| Advance from lessee | 16 | **123,000** | — |
| Convertible bond | 17 | **1,203,381** | 1,368,839 |
| Deferred tax liabilities | | **999,985** | 956,717 |
| | | **2,664,424** | 2,493,140 |
| **NET ASSETS** | | **464,088** | 410,378 |
| **CAPITAL AND RESERVES** | 18 | | |
| Share capital | | **232,897** | 111,851 |
| Accumulated losses | | **(297,644)** | (484,779) |
| Other reserves | | **434,984** | 595,259 |
| **Total equity attributable to equity shareholders of the Company** | | **370,237** | 222,331 |
| Non-controlling interests | | **93,851** | 188,047 |
| **TOTAL EQUITY** | | **464,088** | 410,378 |

**CONSOLIDATED CASH FLOW STATEMENT**

*For the year ended 31 December 2011*

| | Note | **2011** | 2010 |
|---|---|---|---|
| | | ***$'000*** | *$'000* |
| **Operating activities** | | | |
| Cash generated from operations | | **99,878** | 87,304 |
| PRC tax paid | | **(76,956)** | (87,356) |
| **Net cash generated from/(used in) operating activities** | | **22,922** | (52) |
| **Investing activities** | | | |
| Payment for the purchase of property, plant and equipment | | **(2,064)** | (58) |
| Payment for cost of construction of investment property under development | | **(116,509)** | — |
| Proceeds from sale of property, plant and equipment | | **—** | 261 |
| Disposal of discontinued operations, net of cash disposed of | *8* | **(221,803)** | — |
| Proceeds from sale of available-for-sale investment | | **2,368** | — |
| Dividends received from available-for-sale investment | | **—** | 478 |
| Interest received | | **9,267** | 5,160 |
| Decrease/(increase) in restricted bank deposits | | **8,664** | (146,129) |
| **Net cash used in investing activities** | | **(320,077)** | (140,288) |
| **Financing activities** | | | |
| Issue of shares net of directly attributable expenses | | **—** | 108,025 |
| Interest paid | | **(75,721)** | (67,332) |
| Loans from related parties | | **377,479** | — |
| Proceeds from new loans from financial institutions | | **307,500** | 306,806 |
| Repayment of loans from financial institutions | | **(546,221)** | (77,158) |
| Payment for the repurchase of convertible bond | | **(45,274)** | — |
| Advance from lessee | | **123,000** | — |
| Advances from non-controlling equity holders of subsidiaries | | **—** | 4,325 |
| Repayment of promissory notes | | **—** | (60,000) |
| Dividends paid to non-controlling equity holders of a subsidiary | | **(3,836)** | (4,771) |
| **Net cash generated from financing activities** | | **136,927** | 209,895 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(160,228)** | 69,555 |
| **Cash and cash equivalents at 1 January** | | **209,835** | 137,977 |
| **Effect of foreign exchange rate changes** | | **8,410** | 2,303 |
| **Cash and cash equivalents at 31 December** | | **58,017** | 209,835 |

*Notes:*

## 1 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 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 ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

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 3 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.

## 2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

— derivative financial instruments;

— investment properties; and

— leasehold land and buildings.

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 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.

The directors are of the opinion that, after careful consideration of liquidity requirement and cashflow forecasts of the Group, and taking into account of the effect of the financial support from a major shareholder, it is appropriate to prepare the consolidated financial statements on a going concern basis. The directors have concluded that the Group would have sufficient working capital to finance its operations in the next 12 months and remains as a going concern.

## 3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— HKAS 24 (revised 2009), *Related party disclosure*

— Improvements to HKFRSs (2010)

— HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*

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

HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction.

The impacts of other developments are discussed below:

— HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

— Improvements to HKFRs (2010) omnibus standard introduce a number of amendments to the disclosure requirements in HKFR 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

## 4 TURNOVER AND SEGMENT REPORTING

### (a) Turnover

The principal activities of the Group are property development and investment in the People's Republic of China (the "PRC"). On 24 May 2011, the Group completed a transaction to sell the entire interest in Right Strong Holdings and its subsidiaries (the "Disposal Group"). Subsequent to the disposal, all remaining projects are still in the stage of development as at 31 December 2011 and 2010. Accordingly, no turnover of continuing operations was recorded for the years ended 31 December 2011 and 2010. The financial information of the Disposal Group for the years ended 31 December 2011 and 2010 has been restated as discontinued operations (see also note 8).

## 4 TURNOVER AND SEGMENT REPORTING *(Continued)*

### (b) Segment reporting

The Group manages its businesses by projects in different region within the PRC. The Group has identified the following reportable segments 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. No operating segments have been aggregated to form the following reportable segments.

Projects in Fujian Province: this segment engages in the development of residential and commercial properties as well as leasing of properties to earn rental income in Fujian Province.

Projects in Zhejiang Province: this segment engages in the development of residential and commercial properties as well as leasing of properties to earn rental income in Zhejiang Province. On 24 May 2011, the Group completed a transaction to sell the entire interest in the Disposal Group and hence this segment (see also note 8).

### (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 include all intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include current liabilities, bank borrowings managed directly by the segments and deferred tax 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 amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "Profit before tax".

Upon completion of disposal of the Disposal Group, the Group has only one identifiable segment, being the Fujian province segment. In this connection, segment analysis of assets and liabilities at 31 December 2011 are not presented.

## 4 TURNOVER AND SEGMENT REPORTING *(Continued)*

### (c) Segment results, assets and liabilities *(Continued)*

***Continuing operations***

| | Projects in Fujian Province $'000 | Projects in Zhejiang Province $'000 (Refer to note 8) | Total $'000 |
|---|---|---|---|
| **Year ended 31 December 2011** | | | |
| Revenue from external customers | **—** | **—** | **—** |
| Reportable segment profit | **164,808** | **—** | **164,808** |
| **Year ended 31 December 2010** | | | |
| Revenue from external customers | — | — | — |
| Reportable segment loss | (24,226) | — | (24,226) |

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Profit/(loss)** | | |
| Reportable segment profit/(loss) | **164,808** | (24,226) |
| Unallocated head office and corporate results | **(15,463)** | (109,205) |
| Profit/(loss) before taxation | **149,345** | (133,431) |

## 5 OTHER REVENUE AND NET INCOME

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| ***Continuing operations*** | | |
| Interest income from loan to a director | **18,318** | 16,593 |
| Other interest income | **9,267** | 4,520 |
| Net foreign exchange gain/(loss) | **390** | (2,400) |
| Others | **(4,781)** | 277 |
| | **23,194** | 18,990 |

## 6 PROFIT/(LOSS) BEFORE TAXATION

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

| | **2011** | 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| ***Continuing operations*** | | |
| ***(a) Finance costs:*** | | |
| Interest on bank loans | **71,374** | 65,152 |
| Interest on convertible bond *(Note 17)* | **102,591** | 101,133 |
| Interest on loans from related parties repayable within one year | **16,739** | — |
| Interest expense on other borrowings repayable on demand | **—** | 3 |
| Total interest expense on financial liabilities not carried at fair value through profit or loss | **190,704** | 166,288 |
| Less: Interest expense capitalised into investment properties under development and properties under development * | **(60,418)** | (46,677) |
| | **130,286** | 119,611 |

* The borrowing costs have been capitalised at rates ranging from 5.4%-6.4% per annum (2010: 5.4%-5.76% per annum).

| | **2011** | 2010 |
|---|---|---|
| ***(b) Staff costs:*** | | |
| Contributions to defined contribution retirement plan | **253** | 173 |
| Salaries, wages and other benefits | **9,541** | 7,600 |
| | **9,794** | 7,773 |

| | **2011** | 2010 |
|---|---|---|
| ***(c) Other items:*** | | |
| Amortisation of prepaid lease payments | **65** | 65 |
| Depreciation of property, plant and equipment | **802** | 648 |
| Impairment losses of trade and other receivables | **180** | — |
| Auditor's remuneration | | |
| — Audit services | **1,424** | 762 |
| — Other services | **999** | — |
| Operating lease charges: minimum lease payments on the hire of property, plant and equipment | **379** | 365 |
| Loss/(gain) on disposal of property, plant and equipment | **45** | (109) |
| Revaluation surplus on property, plant and equipment | **(518)** | (233) |

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

| | **2011** | 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **Deferred tax** | | |
| Origination and (reversal) of temporary differences | **17,626** | (15,969) |
| | **17,626** | (15,969) |

### (i) Bermuda and British Virgin Islands ("BVI") Profits Tax

Pursuant to the rules and regulations of the Bermuda and BVI, the Group is not subject to any income tax in the Bermuda Islands and BVI.

### (ii) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and the Group did not have assessable profit in Hong Kong for the year.

### (iii) PRC Corporate Income Tax

No provision for Corporate Income Tax has been made in the financial statements as the Group's subsidiaries in the PRC did not have assessable profits during the year.

## 8 DISCONTINUED OPERATIONS

On 3 March 2011, the Company entered into a conditional agreement to dispose of the Disposal Group to a third party, China Fair Land Properties Limited. The transaction was completed on 24 May 2011 and resulted in a gain of $62,460,000.

As a result, the financial information for the year ended 31 December 2010 has been restated to separate the discontinued operations from the continuing operations.

## 8 DISCONTINUED OPERATIONS *(Continued)*

### (a) Results and net assets of discontinued operations and effects of the disposal to the Group

The consolidated results of the discontinued operations for the year ended 31 December 2011 (up to 24 May 2011, being date of disposal) and 2010 are set out below:

| | *Note* | **Period from 1 January to 24 May 2011** ***$'000*** | Year ended 31 December 2010 *$'000* |
|---|---|---|---|
| **Turnover** | | **15,620** | 174,379 |
| Cost of sales | *8(c)(ii)* | **(6,792)** | (102,816) |
| **Gross profit** | | **8,828** | 71,563 |
| Other revenue and net (losses) | | **(997)** | 6,695 |
| Selling, administrative and other operating expenses | | **(4,618)** | (22,426) |
| Valuation gain on investment properties | | **—** | 9,152 |
| **Profit from operations** | | **3,213** | 64,984 |
| Finance costs | *8(c)(i)* | **—** | (1,078) |
| **Profit before taxation** | *8(d)* | **3,213** | 63,906 |
| Income tax | *8(d)* | **(2,697)** | (26,225) |
| **Profit for the period/year** | | **516** | 37,681 |
| Gain on disposal of subsidiaries | | **62,460** | — |
| **Total profit for the period/year** | | **62,976** | 37,681 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **61,852** | 14,432 |
| Non-controlling interests | | **1,124** | 23,249 |
| **Profit for the period/year** | | **62,976** | 37,681 |
| **Earnings per share (HK cents)** | *9* | | |
| Basic | | **2.7** | 0.8 |
| Diluted | | **0.6** | N/A |

**(a) Results and net assets of discontinued operations and effects of the disposal to the Group** *(Continued)*

The net assets of the Disposal Group at 24 May 2011 and the effect of disposal are as follow:

| | *$'000* |
|---|---|
| Net assets disposed of: | |
| Investment properties | 103,508 |
| Property, plant and equipment | 16,085 |
| Prepaid lease payments | 3,637 |
| Deferred tax assets | 3,713 |
| Properties under development | 173,940 |
| Properties held for sale | 104,777 |
| Trade and other receivables | 93,603 |
| Tax prepayments | 10,804 |
| Cash at bank and in hand | 266,769 |
| Trade and other payables | (224,496) |
| Receipts in advance | (185,821) |
| Current taxation | (83,533) |
| Bank loans | (96,320) |
| Deferred tax liabilities | (10,584) |
| Non-controlling interests | (107,644) |
| **Net assets disposed of** | 68,438 |
| Total consideration | 150,656 |
| Net assets disposed of | (68,438) |
| Sale loans *(i)* | (25,785) |
| Reclassification adjustment of the exchange reserve related to the Disposal Group | 6,027 |
| **Gain on disposal of subsidiaries** | 62,460 |
| Consideration satisfied by: | |
| Cash | 44,966 |
| Other receivables *(ii)* | 105,690 |
| | 150,656 |
| Net cash outflow in respect of the disposal of subsidiaries: | |
| Cash consideration received as of 31 December 2011 | 44,966 |
| Cash of subsidiaries disposed | (266,769) |
| **Net cash outflow** | (221,803) |

## 8 DISCONTINUED OPERATIONS *(Continued)*

### (a) Results and net assets of discontinued operations and effects of the disposal to the Group *(Continued)*

(i) Sale loans represented amounts due from the Disposal Group of approximately $33,942,000 less amounts due to the Disposal Group of approximately $8,157,000. The amounts were added back upon disposal.

(ii) Pursuant to the purchase agreement, the consideration was to be payable in cash in three installment as follows:

a. as to $44,966,000 on the completion date;

b. as to $44,966,000 within 90 days after completion date; and

c. as to $60,724,000, being the remaining balance of the consideration within 180 days after completion date.

Further to negotiation between the Company and China Fair Land Properties Limited during the year, the Company agreed that China Fair Land Properties Limited would settle the second and third instalments, amounting to $105,690,000 in total, by 30 June 2012. The board of directors considers the amount to be fully recoverable.

### (b) Analysis of cash flows of the discontinued operations

| | **Period from 1 January to 24 May 2011** *$'000* | Year ended 31 December 2010 *$'000* |
|---|---|---|
| Net cash inflow from operating activities | **98,330** | 450 |
| Net cash inflow from investing activities | **2,361** | 1,118 |
| Net cash inflow from financing activities | **9,618** | 80,219 |
| Net cash inflow attributable to the discontinued operations | **110,309** | 81,787 |

## 8 DISCONTINUED OPERATIONS *(Continued)*

### (c) Profit before taxation

| | **Period from 1 January to 24 May 2011** | Year ended 31 December 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| (i) Finance costs: | | |
| Interest on bank loans | **4,346** | 1,538 |
| Interest expense on other borrowing wholly repayable on demand | **—** | 639 |
| | **4,346** | 2,177 |
| Less: Interest expenses capitalised into properties under development | **(4,346)** | (1,099) |
| | **—** | 1,078 |
| (ii) Other items: | | |
| Amortisation and depreciation | **467** | 993 |
| Rentals receivable from investment properties less direct outgoings of $239,000 (year ended 31 December 2010: $223,000) | **(1,647)** | (3,654) |
| Cost of properties sold | **6,792** | 102,816 |

### (d) Taxation

| | **Period from 1 January to 24 May 2011** | Year ended 31 December 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| ***Current tax*** | | |
| PRC Corporate Income Tax *(ii)* | **916** | 12,997 |
| PRC Land Appreciation Tax *(iii)* | **1,331** | 12,795 |
| | **2,247** | 25,792 |
| ***Deferred tax*** | | |
| Origination of temporary differences | **450** | 433 |
| | **2,697** | 26,225 |

## 8 DISCONTINUED OPERATIONS *(Continued)*

### (d) Taxation *(Continued)*

(i) No provision for Hong Kong Profits Tax has been made as the Disposal Group did not have any assessable profit in Hong Kong for the year.

(ii) PRC Corporate Income Tax ("CIT")

Provision for CIT is calculated at the applicable tax rates on the estimated assessable profits of the entities of the Disposal Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The CIT rate applicable to the Disposal Group's subsidiaries in the PRC is 25% (2010: 25%).

(iii) PRC Land Appreciation Tax ("LAT")

All income from sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including costs of land use rights, borrowing costs and relevant development expenditure.

## 9 EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of $185,411,000 (2010: loss of $102,911,000) divided by the weighted average number of 2,321,839,000 ordinary shares (2010: 1,672,111,000) in issue during the year, calculated as follows:

***Weighted average number of ordinary shares***

| | **2011** | 2010 |
|---|---|---|
| | ***'000*** | *'000* |
| Issued ordinary shares at 1 January | **1,118,507** | 1,118,507 |
| Effect of rights issue *(note 18)* | **1,115,412** | 553,604 |
| Effect of exercise of convertible bond *(note 18)* | **87,920** | — |
| | **2,321,839** | 1,672,111 |

(i) The weighted average number of ordinary shares has been adjusted for rights issue in 2010.

## 9 EARNINGS/(LOSS) PER SHARE *(Continued)*

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on profit/(loss) attributable to equity shareholders of the Company of $288,002,000 and the weighted average number of 9,170,879,000 shares of all dilutive potential ordinary shares, calculated as follows. As at 31 December 2011, the Company has only one category of potential ordinary shares, which is convertible bond.

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

| | **2011** |
|---|---|
| | ***'000*** |
| Profit attributable to ordinary equity shareholders | **185,411** |
| After tax effect of effective interest on the liability component of convertible bond | **102,591** |
| | **288,002** |

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

| | **2011** |
|---|---|
| | ***'000*** |
| Weighted average number of ordinary shares at 31 December | **2,321,839** |
| Effect of conversion of convertible bond *(note 17)* | **6,849,040** |
| | **9,170,879** |

The diluted loss per share for the year ended 31 December 2010 is not presented as the potential ordinary shares had anti-dilution effect on the earnings per share.

## 10 INVESTMENT PROPERTIES UNDER DEVELOPMENT

| | **2011** | 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Transfer from property under development *(note 11)* | **1,300,263** | — |
| Additions | **116,509** | — |
| Exchange adjustments | **51,028** | — |
| Fair value adjustment | **215,701** | — |
| At 31 December | **1,683,501** | — |

The Group acquired the Hengli City property development project in Fuzhou in 2008 with the intention to sell the shopping spaces and car parks after completion of construction. Hence the shopping spaces and car parks were initially classified as property under development under current assets. The plan was subsequently changed and, during the year, the Group entered into a lease agreement with a tenant to lease the entire shopping spaces and certain car parks of the Hengli City property development project upon completion of construction. Accordingly, the shopping spaces and certain car parks, with carrying value amounted to $1,300,263,000, were transferred to investment properties under development during the year.

The Group's investment properties under development was revalued on an open market value basis at the end of the reporting period by an independent firm of surveyors, Savills Valuation and Professional Services Limited, which has recent experience in the respective location and category of property being valued. As a result of the revaluation, a net gain of $215,701,000 has been recognised in profit or loss for the year in respect of investment properties under development.

The Group's total future minimum rental receivables under non-cancellable operating leases are as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Within 1 year | **4,061** | — |
| After 1 year but within 5 years | **246,615** | — |
| After 5 years | **1,282,530** | — |
| | **1,533,206** | — |

As at 31 December 2011, the Group's investment properties under development with carrying value amounting to $1,683,501,000 is pledged as collateral for the Group's borrowings (note 15).

## 11 PROPERTIES UNDER DEVELOPMENT

| | 2011 | 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| At 1 January | **4,090,776** | 3,571,791 |
| Additions | **998,089** | 372,408 |
| Exchange adjustments | **232,160** | 146,577 |
| Transfer to investment properties under development *(note 10)* | **(1,300,263)** | — |
| Disposal of subsidiaries | **(173,940)** | — |
| | **3,846,822** | 4,090,776 |

### (a) Properties under development in the consolidated statement of financial position comprise:

| | 2011 | 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Land use rights | **2,837,811** | 3,181,376 |
| Construction costs | **878,884** | 792,641 |
| Interest expense capitalised | **130,127** | 116,759 |
| | **3,846,822** | 4,090,776 |

The properties under development are all located in the PRC.

As at 31 December 2011, the properties under development amounting to $3,227,794,000 (2010: $3,648,859,000) were pledged as collateral for the Group's borrowings (see note 15).

### (b) Analysis of land use rights by lease terms is as follows:

| | 2011 | 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Held under: | | |
| — long leases (over 50 years) in the PRC | **1,170,807** | 1,685,026 |
| — medium-term leases (10 to 50 years) in the PRC | **1,667,004** | 1,496,350 |
| | **2,837,811** | 3,181,376 |

## 12 TRADE AND OTHER RECEIVABLES

| | 2011 | 2010 |
|---|---|---|
| | *$'000* | *$'000* |
| Trade receivables | **1,592** | 2,370 |
| Prepayments, other receivables and deposits | **265,887** | 90,716 |
| | **267,479** | 93,086 |

The amount of the Group's deposits and prepayments expected to be recovered or recognised as expense after more than one year are $10,626,000 (2010: $20,419,000) and nil (2010: $21,000) respectively.

### (a) Ageing analysis

The ageing analysis of trade receivables is as follows:

| | 2011 | 2010 |
|---|---|---|
| | *$'000* | *$'000* |
| Current | **1,592** | 2,370 |

At 31 December 2011, no impairment allowance is necessary in respect of the Group's trade receivables as the management considers that the balances are fully recoverable. The Group does not hold any collateral over these balances.

## 13 TRADE AND OTHER PAYABLES

| | 2011 | 2010 |
|---|---|---|
| | *$'000* | *$'000* |
| Trade payables | **185,174** | 220,514 |
| Other creditors and accrued charges | **98,173** | 134,861 |
| Deposits from customers and other parties | **573,198** | — |
| Interest payable to related parties | **17,013** | — |
| Amounts due to non-controlling equity holders | **26** | 18,886 |
| | **873,584** | 374,261 |

The following is the aging analysis of trade payables as of the end of reporting period:

| | 2011 | 2010 |
|---|---|---|
| | *$'000* | *$'000* |
| Due within 3 months or on demand | **40,681** | 108,727 |
| Due after 3 months but within 12 months | **144,493** | 111,787 |
| | **185,174** | 220,514 |

## 14 LOANS FROM RELATED PARTIES

Mr. Chen Chang Wei ("Mr. Chen") is a director and major shareholder of the Group and is considered a related party of the Group. The loans from related parties are made from Mr. Chen and an entity controlled by Mr. Chen.

The loans from Mr. Chen, amounted to $24,000,000, bear interest ranging from 18% to 20% per annum, are unsecured and repayable six months after the date of the respective drawdowns.

The loans from an entity controlled by Mr. Chen, amounted to $353,479,000, bear interest ranging from 8% to 20% per annum, are unsecured and repayable six months after the date of the respective drawdowns.

## 15 LOANS FROM FINANCIAL INSTITUTIONS

At 31 December 2011, loans from financial institutions were repayable and secured as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Within 1 year | **781,373** | 1,264,082 |
| After 1 year but within 2 years | **328,049** | 155,477 |
| After 2 year but within 5 years | **6,662** | 6,478 |
| After 5 years | **3,347** | 5,629 |
| | **1,119,431** | 1,431,666 |

(a) Assets of the Group pledged to secure the loans from financial institutions comprise:

| | **2011** | 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Property, plant and equipment | **2,000** | 1,599 |
| Prepaid lease payments | **24,940** | 28,622 |
| Investment properties under development *(note 10)* | **1,683,501** | — |
| Properties under development *(note 11)* | **3,227,794** | 3,648,859 |
| Restricted bank deposits | **349,423** | 344,637 |
| | **5,287,658** | 4,023,717 |

(b) Certain loans from financial institutions at 31 December 2011 were guaranteed by Mr. Chen and were secured by certain personal properties.

(c) During the year, one of the subsidiary's bank loans amounted to RMB350,000,000 fell due and was not settled on the due date on 21 December 2011 and 24 December 2011. Pursuant to careful consideration of the Group's funding needs, the Group completed a refinancing arrangement with a financial institution on 29 December 2011 whereby the outstanding loans amounted to RMB350,000,000 are restructured and are repayable by instalments within the following two years (before 20 December 2013). An upfront fee at 2% of the loan was paid to the financial institution. The refinanced loans bear interest at 14% per annum for the first six months of the loan period and at 18% per annum thereafter. An additional default interest at 0.1% per month based on the overdue principal amount will be charged in the event of a default to repay the loans in the respective due dates for the first six months after the date of the agreement and 0.3% per month on overdue amounts subsequently. Certain property under development was pledged to secure the granting of such loan. In addition, the subsidiary is subject to certain financial covenants.

## 15 LOANS FROM FINANCIAL INSTITUTIONS *(Continued)*

(c) *(Continued)*

In addition, a loan of another subsidiary of the Group amounted to RMB250,000,000 is also subject to fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with banks. If the subsidiary were to breach the covenants the drawn down facilities would become repayable on demand. During the year ended 31 December 2011, the Group was not in compliance with one of these balance sheet ratios. Accordingly, the loan is reclassified from non-current liabilities to current liabilities, although the bank has not demanded for an immediate repayment of the loan up to the date of this report. As at 31 December 2011, no other covenants relating to the drawn down facilities had been breached.

## 16 ADVANCE FROM LESSEE

The advance from lessee is non-interest bearing, repayable on 14 February 2013 and is secured by the Group's 30 percent interest in a subsidiary.

## 17 CONVERTIBLE BOND

On 21 January 2008, the Company issued $2,701,711,500 zero coupon convertible bond at 100% of principal amount to Mr. Chen as part of the consideration for the acquisition of Amazing Wise Limited and its subsidiaries. The convertible bond are secured by the shares of Amazing Wise Limited held by the Company.

The rights of the convertible bond holders to convert the convertible bond into ordinary shares are as follows:

— Conversion rights are exercisable at any time up to maturity at the option of convertible bond holders.

— Pursuant to the terms of the convertible bond, the exercise/conversion price and the number of shares to be issued upon exercise of the subscription rights attached to the convertible bond have been adjusted as a result of a rights issue in January 2011. The Company is required to deliver ordinary shares at a rate of $0.334 per share (originally $0.5 per share before the right issue).

If the convertible bond holders' conversion rights have not been exercised or the convertible bond has not been repurchased or redeemed up to the maturity date, i.e. 20 January 2018, the Company will redeem at face value on 20 January 2018.

At 31 December 2011, the outstanding principal amount of the convertible bond is $1,916,000,000 (2010: $2,347,712,000).

The convertible bond recognised in the Group's consolidated statement of financial position is analysed as follows:

| | **Liability component** *$'000* | **Equity component** *$'000* |
|---|---|---|
| Net carrying amount at 31 December 2010 | 1,368,839 | 136,770 |
| Interest expense *(i)* | 102,591 | — |
| Conversion rights exercised *(ii)* | (17,970) | (1,789) |
| Convertible bond repurchased *(iii)* | (250,079) | (23,361) |
| Net carrying amount at 31 December 2011 | 1,203,381 | 111,620 |

## 17 CONVERTIBLE BOND *(Continued)*

### (i) Interest expense

Interest expense on the convertible bond is calculated using the effective interest method by applying the effective interest rate of 8% to the liability component.

### (ii) Conversion rights exercised

On 17 January 2011, convertible bond with principal amount of $30,711,500 was converted.

### (iii) Convertible bond repurchased

On 8 June 2011, the Company repurchased convertible bond with principal amount of $45,000,000 held by Mr. Chen, representing approximately 1.94% of the outstanding principal amount of the convertible bond at the date of the repurchase. The consideration is equal to the face value of the convertible bond and is settled by cash. As a result of the repurchase, the liability component of the convertible bond was remeasured at its fair value at the date of the repurchase and compared to the carrying amount of the convertible bond. A fair value gain of approximately $4,403,000 was recognised in the profit or loss.

On 21 November 2011, the Company entered into a sale and purchase agreement to repurchase convertible bond with principal amount of $356,000,000 held by Mr. Chen, representing approximately 15.67% of the outstanding principal amount of the convertible bond at the date of the repurchase. The consideration is equal to the face value of the convertible bond repurchased and is settled by way of setting off the loan of RMB289,329,962 (equivalent to approximately $355,726,270) due from Mr. Chen to the Group and the remaining balance of $273,730 in cash. The repurchase was completed on 31 December 2011 and as a result of the repurchase, the liability component of the convertible bond was remeasured at its fair value at the date of the repurchase and compared to the carrying amount of the convertible bond. A fair value gain of approximately $96,266,000 was recognised in the profit or loss.

### (iv) During the year ended 31 December 2011, the Company executed supplemental deeds to modify the terms of the convertible bond as follows:

— Amendment to the restriction to the maximum number conversion rights exercisable at any time up to maturity from not exceeding 29% of the issued share capital of the Company following such conversion or such lower percentage as may from time to time be specified in the Takeovers Code to a number that will not (i) trigger an obligation on the part of the relevant holder(s) of the Convertible Bonds to make a mandatory offer under Rule 26.1 of the Takeovers Code; or (ii) result in the Company not being able to comply with the minimum public float requirement under the Listing Rules.

The above modification is neither considered as being substantial nor having a significant impact to the Group.

— Insertion of an early redemption provision such that the Company shall have the right at any time to redeem the whole or any part of the outstanding principal amount of the convertible bond at their face value.

The option to enable to Company to redeem the convertible bond at any time before its maturity is considered as an asset and the fair value of the option has been recognised as an derivative financial asset as at the insertion date. The Directors consider such option to be contributed by Mr. Chen in the capacity of the major shareholder and therefore the asset was credited to capital reserve.

Other than the recognition of a derivative financial asset, the above modification in neither considered as being substantial nor having a significant impact to the Group.

## 18 SHARE CAPITAL

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **No. of shares** | **Amount** | No. of shares | Amount |
| | ***'000*** | ***$'000*** | *'000* | *$'000* |
| **Authorised:** | | | | |
| Ordinary shares of $0.1 each | **10,000,000** | **1,000,000** | 10,000,000 | 1,000,000 |
| **Issued and fully paid:** | | | | |
| Ordinary shares of $0.1 each | | | | |
| At 1 January | **1,118,507** | **111,851** | 1,118,507 | 111,851 |
| Rights issue of shares *(i)* | **1,118,507** | **111,851** | — | — |
| Exercise of convertible bond *(ii)* | **91,951** | **9,195** | — | — |
| At 31 December | **2,328,965** | **232,897** | 1,118,507 | 111,851 |

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

Movement in share capital during the year are as follow:

(i) On 28 December 2010, the Company received $111,850,000 before expenses for issue of 1,118,507,000 shares at the subscription price of $0.10 by way of rights issue on the basis of one share for every existing share held. The rights issue was completed and the shares were issued on 3 January 2011. The expenses directly attributable to the rights issue amounted to $3,826,000 were debited to share premium of the Company.

(ii) During the year ended 31 December 2011, 91,951,000 ordinary shares of $0.10 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bond at a conversion price of $0.3340 per share (see note 17 for details of the convertible bond).

## 19 CAPITAL COMMITMENTS

| | 2011 | 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Contracted for land and development costs in respect of property development activities | **1,138,122** | 839,382 |

**BUSINESS REVIEW**

During 2011, the Chinese government continued to enforce and implement tightening policies on the real estate industry, for example, policies aiming to restrict purchases of residential properties and policies to further curb the currency liquidity by raising the reserve requirement ratio and raising the RMB benchmark deposit and loan interest rates of financial institutions by the People's Bank of China. Most real estate developers have experienced severe challenges in 2011. The Group was impacted by such unfavorable business environment during 2011 in terms of sales. However, the Group actively responded to the market changes and promptly adjusted its marketing strategy. The Group launched a new commercial property project, namely "Hengli • Financial Center" (「恒力 • 金融中心」) and the office part of "Hengli City" (「恒力城」) for pre-sale in June 2011 and August 2011 respectively, posting a transaction amount of approximately RMB642.9 million. The Group achieved pre-sale of its residential units of approximately RMB289.1 million, office units of approximately RMB642.9 million and parking spaces of approximately RMB89.3 million in 2011. As at 31 December 2011, the Group's accumulated pre-sales of its properties amounted to approximately RMB2,018.2 million.

For the year ended 31 December 2011, the Group's profit attributable to equity shareholders of the Company was approximately HK$185.4 million. This was mainly due to i) recognition of valuation gain on investment properties under development of HK$215.7 million, ii) recognition of gain on disposal of subsidiaries of HK$62.5 million, iii) recognition of gain on repurchase of convertible bond of HK$100.7 million, net of iv) finance costs and other operating expenses of HK$190.2 million.

On 18 January 2011, the Group entered into a long-term lease agreement with Beijing Wangfujing Department Store (Group) Co. Ltd. (北京王府井百貨(集團)股份有限公司), a large retail department store group listed on the Shanghai Stock Exchange, for the commercial podium of "Hengli City" (「恒力城」), which is expected to bring rental income of approximately RMB124.7 million to the Group in the next twenty years. To facilitate the business operation of the leasee, the Group would also spare 395 parking spaces for rental purpose.

On 15 March 2011, the Group successfully bid for the land use right of a parcel of land with an area of approximately 42,125 square meters in Fuzhou. The land is located in Gulou District of Fuzhou city, at north of the Bei Er Huan Road (北二環路) and east of Fu Fei Road (福飛路). The Group formed a joint venture with Yonghui Superstores Co. Ltd (永輝超市股份有限公司), which is listed on the Shanghai Stock Exchange, to develop the land into high-end commercial properties with residential building named "Hengli • Bona Plaza" (「恒力 • 博納廣場」) with an estimated gross floor area of 274,091 sq.m.

The Group recognised that, while expanding its scale of business operation, its property management services must keep pace with the latest standards and meet the diversified needs of different householders. For this purpose, in April 2011, the Group formed a joint venture with a subsidiary of Savills Group, a renowned global real estate service provider, to introduce high-end property management services with international standards so as to provide better quality property management services to the householders, to enhance the value of the properties and the Group's brand value.

Given the increasing demand for high-end commercial properties in the second-tier and third-tier cities in the PRC, the long-term development strategy of the Group has been adjusted to develop high-end, high-yield commercial properties and commercial and residential complex. In May 2011, the Company disposed of the entire equity interest in Right Strong Holdings Limited, the Company's wholly owned subsidiary, and hence projects in Zhejiang Province, which were mostly middle or low-end residential and commercial properties. The disposal resulted in a gain of approximately HK$62.5 million. Through the disposal, the Board believes that the Company will be able to allocate its resources more effectively in order to focus on the development of its existing high-end property projects in the Fujian Province and to achieve its long term strategy. As at 31 December 2011, the Group owned four projects in Fuzhou, namely "Hengli City" (「恒力城」), "Hengli •

Financial Center" (「恒力 • 金融中心」), "Hengli • Prosperity Center" (「恒力 • 創富中心」) and "Hengli • Bona Plaza" (「恒力 • 博納廣場」), which were all located in the central financial district of Fuzhou. "Hengli City" (「恒力城」) is a residential, office and retail complex with a total gross floor area of approximately 241,600 square meters, involving one block of 40-storey office building and three blocks of 46-storey residential buildings, commonly erected on top of a 8-storey commercial podium accommodating clubhouse facilities and retail spaces as well as three levels of basement car parking spaces. "Hengli • Financial Center" (「恒力 • 金融中心」) and "Hengli • Prosperity Center" (「恒力 • 創富中心」) are being developed into high-end commercial properties, with estimated gross floor area of approximately 50,645 and 56,757 sq.m. respectively. "Hengli • Bona Plaza" (「恒力 • 博納廣場」) will be developed into high-end commercial properties with residential building with an estimated gross floor area of 274,091 sq.m. Given the proximity of the aforementioned property projects in Fuzhou, the Company is expected to enjoy synergy effects and economies of scale in managing and developing those property projects.

With the development of its projects, the Group has paid more attention to its company motto and brand image of "恒力築經典，品質贏天下". The Group focused on the quality of its properties to reflect a high-quality product offering premium brand image. In addition, the Group cooperated with solid and renowned business partners during the 2011 to bring high-quality, high-value products and services to its customers.

## FINANCIAL REVIEW

### Net assets

As at 31 December 2011, the Group recorded total assets and total liabilities of approximately HK$7,215.4 million and HK$6,751.3 million respectively. The Group's net assets value per consolidated statement of financial position as at 31 December 2011 increased by approximately HK$53.7 million to approximately HK$464.1 million as compared to approximately HK$410.4 million as at 31 December 2010.

### Liquidity and financial ratios

The Group had total cash and bank balances of approximately HK$407.4 million as at 31 December 2011 as compared with HK$554.5 million as at 31 December 2010. As at 31 December 2011, the current ratio was 1.3 as compared with 1.9 as at 31 December 2010. The gearing ratio was 83.27% as at 31 December 2011 as compared with 84.6% as at 31 December 2010. The bank borrowings to equity attributable to equity shareholders of the Company ratio was 302.4% as at 31 December 2011 as compared to 643.9% as at 31 December 2010.

### Borrowings

The Group had interest-bearing bank borrowings of approximately HK$1,119.4 million as at 31 December 2011 (31 December 2010: HK$1,431.7 million), representing a decrease of approximately 21.8% over the amount as at 31 December 2010. Borrowings were denominated in Renminbi ("RMB") and Hong Kong dollar ("HK$"). Approximately 69.8% of the borrowings is repayable within one year of which 40.1% is secured by cash deposit. The rest representing the bank loans repayable after one year of HK$338.1 million. The Company is confident in meeting its loan repayment obligations with its cash and bank deposits and proceeds from pre-sales and sale of its projects.

The Group had aggregate net carrying amount of convertible bonds of approximately HK$1,203.4 million (principal amount of approximately HK$1,916.0 million) as at 31 December 2011.

**Foreign currency exposure**

Other than financing activities of borrowings denominated in HK$, the Group conducts its business almost exclusively in RMB. Thus the Group is exposed to foreign exchange risk arising from the exposure of RMB against HK$. The Directors do not anticipate any significant foreign exchange loss as a result of changes in exchange rate between RMB and HK$ in the foreseeable future. The Directors also consider that there will be sufficient cash resources denominated in both RMB and HK$ for repayment of its borrowings. During the year, the Group did not use any financial instrument to hedge foreign currency exposure and the Group did not have hedging instrument outstanding as at 31 December 2011.

## PLEDGE OF ASSETS

As at 31 December 2011, the Group pledged certain of its property, plant and equipment, prepaid lease payments, properties under development, investment properties under development and restricted bank deposits to financial institutions to secure the loans of approximately HK$1,119.4 million (2010: HK$1,431.7 million) granted by these financial institutions.

The aggregate carrying value of the property, plant and equipment, prepaid lease payments, properties under development, investment properties under development, and restricted bank deposits as at 31 December 2011 amounted to approximately HK$2.0 million HK$25.0 million, HK$3,227.8, HK$1,683.5 million and HK$349.4 million (31 December 2010: HK$1.6 million, HK$28.6 million, HK$3,648.9, HK$nil million and HK$344.6 million) respectively.

## CONTINGENT LIABILITIES

As at 31 December 2011, the Group provided guarantees of approximately HK$528.9 million (2010: HK$392.7 million) to banks in favor of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group’s developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificates of the respective properties by the banks from the customers as a pledge for security to the mortgage loan granted. At the balance date, no provision for the Group’s obligation under these guarantee contracts has been made as the directors considered that it was not probable that the repayment of these loans would be in default.

The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

## MATERIAL ACQUISITION AND DISPOSAL

On 3 March 2011 the Company entered into a conditional agreement to dispose of the entire equity interest in Right Strong Holdings Limited, the Company’s wholly owned subsidiary. The transaction was completed on 24 May 2011 with a consideration of HK$150.7 million and resulted in a gain of HK$62.5 million.

## CAPITAL STRUCTURE

On 8 December 2010, the rights issue on the basis of one rights share for every existing share was approved by the independent shareholders of the Company by way of poll at a special general meeting of the Company. The rights issue was completed on 3 January 2011 and 1,118,507,000 shares were issued at the subscription price of HK$0.10 per share on that date.

During the year ended 31 December 2011, 91,951,000 ordinary shares of HK$0.10 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of HK$0.334 per share.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group employed approximately 114 full time staffs in the PRC and Hong Kong.

The Group remunerates its employees based on their performance, experience and prevailing market price while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidised educational and training programs.

## APPROPRIATIONS

The Directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: nil).

## OUTLOOK

Looking into 2012, the world's overall economic growth may slowdown further with the worsening of the debt crisis in Europe and the adverse impact from the downgrade of the US sovereign credit rating. China maintained a stable growth in its economy, but inflationary pressures were still notable. Although there is no apparent sign of easing the tightened policies on the real estate sector, since December 2011, the reserve requirement ratio has been reduced twice. In order to promote economic development and to increase domestic consumption, it is expected that liquidity would be further eased during 2012. The Group believes that once the liquidity loosens or market regains its confidence, the sales of commercial properties will quickly return, driven by the demand for commercial properties in the urban areas.

Although the market liquidity remains tight, the Group anticipates that the situation will improve within this year. The Group will prudently expand its funding channels, including seizing opportunity to conduct equity financing activities, and select the most appropriate and beneficial financing arrangements so as to provide strong financial resources and supports for the sustainable development of the Group.

Looking forward, growth of the Chinese economy will still be one of the fastest globally, coupled with the long-term policy of urbanization. The Group remains optimistic about the prospects of China's real estate sector. The Group will continue to strategically select and develop commercial property projects that are in line with the Group's long-term development strategy to further penetrate into other second-tier and third-tier cities in the PRC. The Group is committed to offering high-quality, high yield commercial property products to its customers, contributing to the urbanization of the country, creating values for the society and providing satisfactory returns to its shareholders.

## CORPORATE GOVERNANCE

The Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2011 except for deviations in (i) the independent non-executive directors of the Company are not appointed for a specific term and (ii) the role of chairman and chief executive officer are performed by the same individual.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Rules Governing the Listing of Securities of the Stock Exchange (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code/the required standard of dealing and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange.

The Company considers all of the independent non-executive directors are independent.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

## AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors, Mr. Ma Ving Lung, Mr. Yip King Keung, Pony and Ms. Lin Wen Feng.

The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The final results have been reviewed by Audit Committee.

## PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT IN 2011

This announcement will be published on both the websites of the Company (www.hlgroup.com.hk) and of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The final report of the Company for the year ended 31 December 2011 will be dispatched to shareholders and published on the aforesaid websites in due course.

By order of the board
**Hengli Commercial Properties (Group) Limited**
**Chen Chang Wei**
*Chairman*

Hong Kong, 28 March 2012

*As at the date of this announcement, Mr. Chen Chang Wei, Ms. Chen Dongxue, Mr. Chan Chi Wang and Ms. Wu Weilan are the Executive Directors. Ms. Lin Wen Feng, Mr. Ma Ving Lung and Mr. Yip King Keung, Pony are the Independent Non-executive Directors.*