



SHUI ON CONSTRUCTION AND MATERIALS LIMITED

BUILDING ON OUR STRENGTHS AND TRACK RECORD **SCALING NEW HEIGHTS**

乘勢待時創高峰

Annual Report 2009

Stock Code: 00983



COVER STORY

In 2009, SOCAM not only emerged stronger despite the global financial crisis, with increased profitability and considerably strengthened asset and equity bases, but also expanded its horizons in core business areas. Its key area of operation – Chinese Mainland – saw significant improvement in market confidence and achieved an enviable economic growth. Leveraging the strong, sustainable growth momentum in the Mainland, the Group is well-placed to build on its strengths and track record to scale new heights in the decade ahead.

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SOCAM AT A GLANCE

Shui On Construction and Materials Limited (SOCAM) (HKSE Stock Code: 00983) is a member of Shui On Group, which has over 39 years of history. The Group's corporate culture and long-term objectives are based on its commitment to quality, innovation and excellence.

SOCAM was listed on the Hong Kong Stock Exchange in February 1997 and is principally engaged in property, cement and construction with operations in the Chinese Mainland, Hong Kong and Macau.



PROPERTY

- Distressed and Special Situation Property Development
- Knowledge Community Project
- Investment in Shui On Land



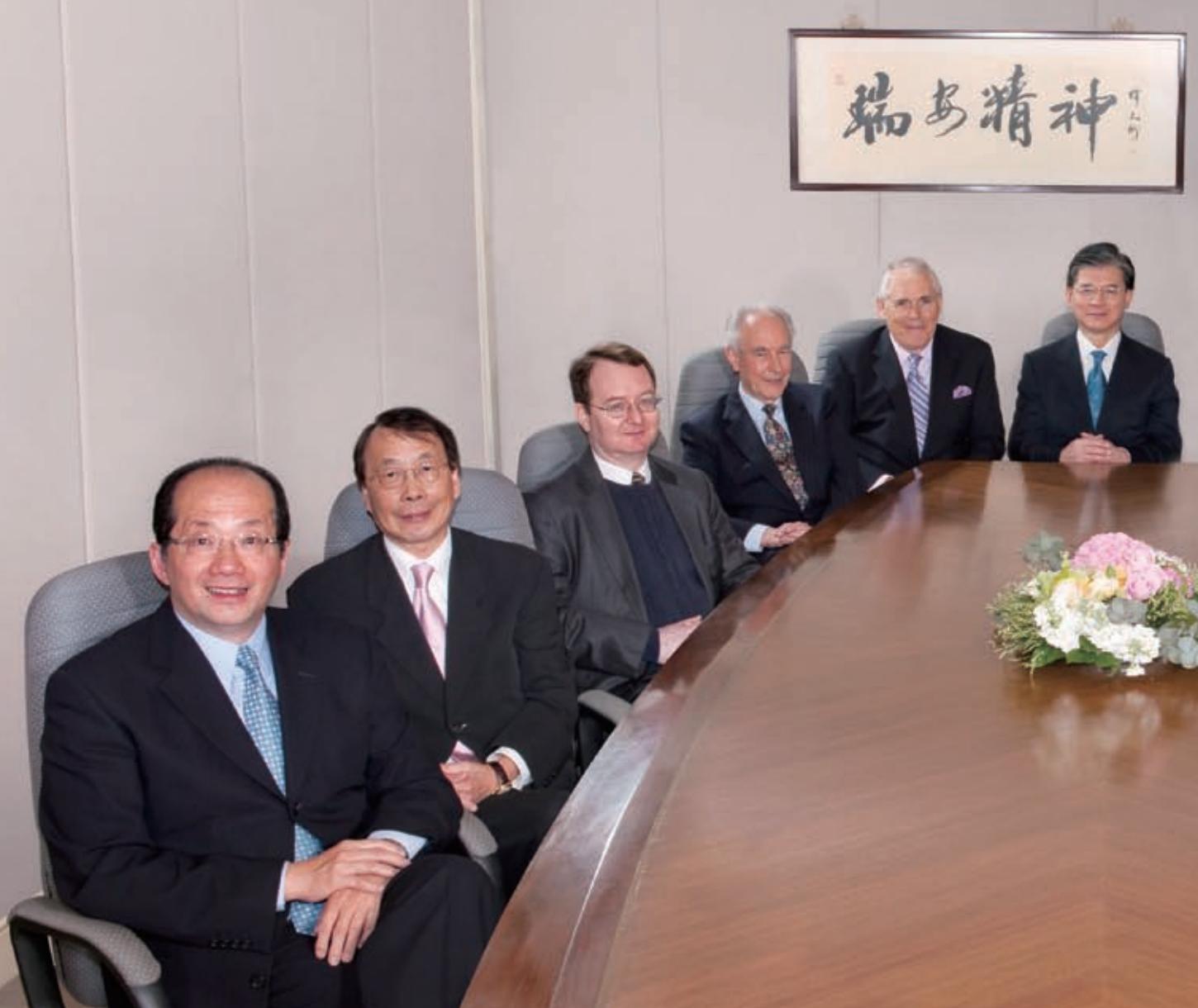
CEMENT

- Lafarge Shui On Cement
- Guizhou Operations
- Nanjing Operations



CONSTRUCTION AND OTHERS

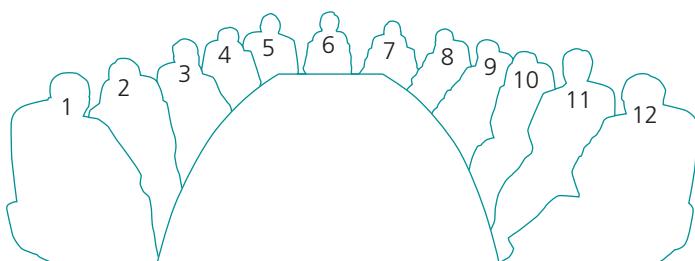
- Public Housing
- Commercial, Residential and Institutional Buildings
- Interior Fitting Out and Building Renovation
- Maintenance
- Venture Capital



BOARD OF DIRECTORS



1. Mr. Wong Kun To, Philip
2. Mr. Wong Yuet Leung, Frankie
3. Professor Michael Enright
4. Mr. Anthony Griffiths
5. Mr. David Gordon Eldon
6. Mr. Lo Hong Sui, Vincent
7. Mr. Gerrit de Nys
8. Mr. Chan Kay Cheung
9. Mr. Tsang Kwok Tai, Moses
10. Ms. Li Hoi Lun, Helen
11. Mr. Choi Yuk Keung, Lawrence
12. Mr. Wong Fook Lam, Raymond



KEY EVENTS IN 2009

January

- Shui On Building Contractors (SOBC) secured three construction contracts from Hong Kong Architectural Services Department, valued at approximately HK\$1.2 billion.
- China Central Properties (CCP) acquired a 30% interest in its Shenyang project from its US based partner.
- Chengdu Central Point held its groundbreaking ceremony.



February

- Lafarge Shui On Cement and CCP obtained a 3-year loan facility of RMB5 billion from Agricultural Bank of China for development use.
- SOCAM was named 'Caring Company' by the Hong Kong Council of Social Service.



March



- The launch of 'We Care Week', a group-wide corporate social responsibility campaign.

May

- Dalian Tiandi entered into a lease agreement with Ambow, a leader in the education services sector in the Mainland, to build a facility with a GFA of 114,000 square metres.



June

- CCP was successfully privatised and became a wholly-owned subsidiary of SOCAM.

July

- SOBC was awarded a Hong Kong Housing Authority public housing contract for Shek Kip Mei Estate Phase 5, with a value of HK\$718 million.

August

- All CCP projects were rebranded under Shui On China Central Properties (SOCCP).
- The commissioning of the new dry kiln in Kaili, Guizhou with a total capacity of 2,500 tonnes per day started.
- Chengdu Orient Home held its groundbreaking ceremony.



September

- Two property projects, Chongqing Creative Concepts Center and Shenyang Project Phase I, were put up for pre-sale.

October

- SOCAM formed a joint venture and completed the acquisition of a residential project in the Chaoyang District of Beijing.



November

- The Chairman and Founder of the Shui On Group, Mr. Vincent H. S. Lo, was honoured with 'Ernst & Young Entrepreneur Of The Year 2009' in the China Real Estate Category, and was chosen as the 'Ernst & Young Entrepreneur Of The Year 2009 China' country award winner.



December

- SOCAM entered into an agreement to acquire Lakeville Regency Tower 18, a luxury residential building in Shanghai.



MAJOR AWARDS AND RECOGNITION

Corporate

The Gold Corporate Award in The Asset Triple A Awards 2009 *The Asset*

Asia's Best Companies for Corporate Governance Award in the 6th Corporate Governance Asia Annual Recognition Awards 2010

Corporate Governance Asia magazine

Best Practice Award 2009 in Corporate Social Responsibility *Best Practice Management*

2009 International ARC Awards

- Gold Award in Chairman's Letter
- Silver Award in Written Text
- Bronze Award in Overall Annual Report

MerComm, Inc

Silver Award in GALAXY Awards 2009

MerComm, Inc

Caring Company 2006-2010

Hong Kong Council of Social Service

Environment

Gold Award and Certificate of Merits in 2008 Hong Kong Awards for Environmental Excellence – Sectoral Awards (Construction Industry)

Environmental Campaign Committee, Hong Kong

Green Contractor Gold Award 2008

Architectural Services Department, HKSAR Government

Silver, Bronze and Merit Awards in Outstanding Environmental Management and Performance Awards

Works Branch of the Development Bureau, HKSAR Government

Quality

Quality Public Housing Construction and Maintenance Awards 2009

- Gold Award in Maintenance and Improvement Projects – Outstanding Contractors Award (District Term Contract)
- Silver Award in New Works Category – Outstanding Contractors Award (Building)

Hong Kong Housing Authority, HKSAR Government

Safety

Silver, Bronze and Merit Awards in Considerate Contractors Site Award Scheme 2008

Works Branch of the Development Bureau, HKSAR Government

Gold, Bronze and Meritorious Awards in Construction Industry Safety Award Scheme 2008/2009

Labour Department, HKSAR Government

Gold, Silver, Bronze and Merit Awards in Construction Safety Promotional Campaign 2009

Occupational Safety and Health Council, Hong Kong

Silver and Bronze Awards in Hong Kong Occupational Safety and Health Award 2009

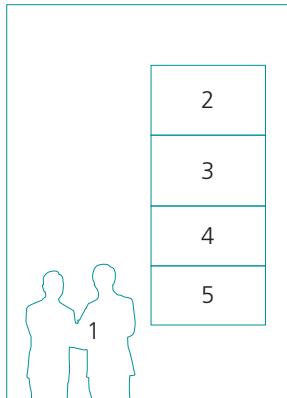
Occupational Safety and Health Council, Hong Kong

Safety Gold and Proactive Safety Contractor Awards in 2008 HKCA Safety Awards

Hong Kong Construction Association

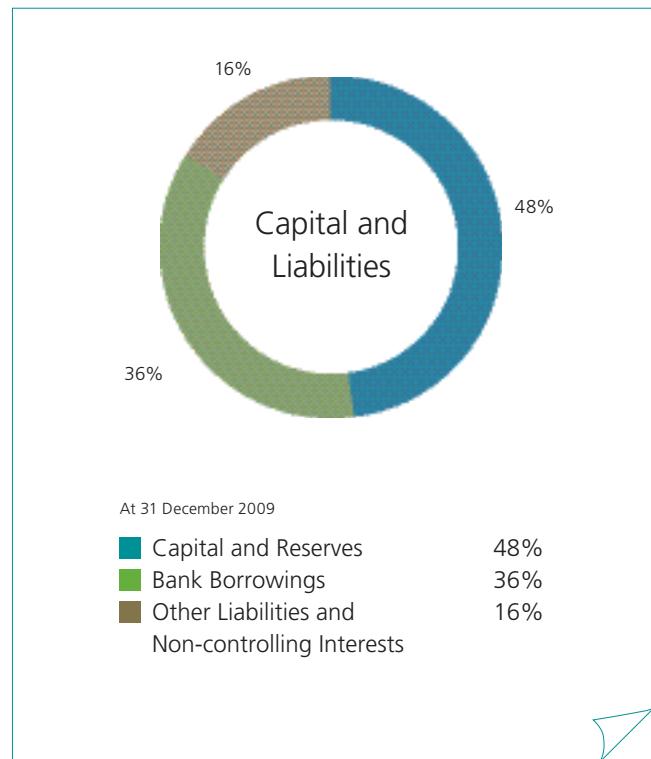
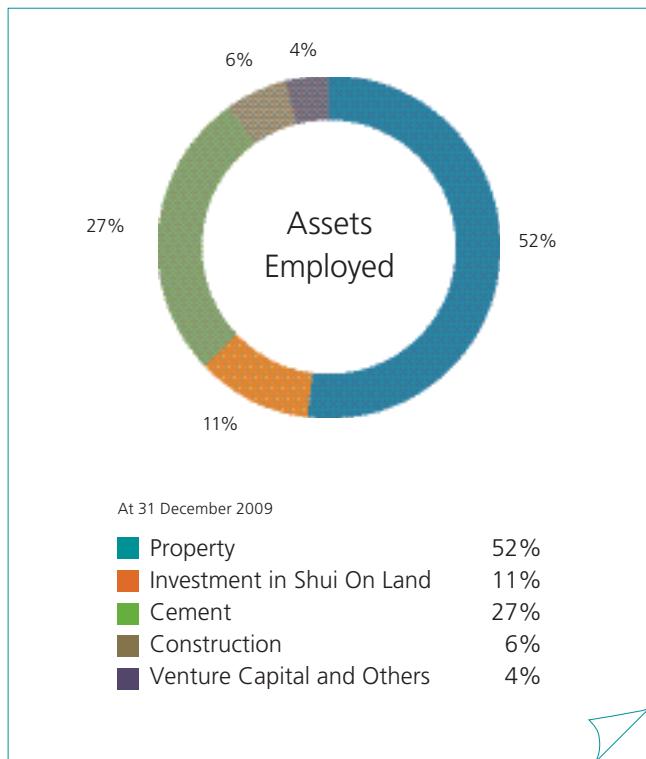


1. Gold Award and Certificate of Merits in 2008 Hong Kong Awards for Environmental Excellence – Sectoral Awards (Construction Industry)
2. Best Practice Award 2009 in Corporate Social Responsibility
3. Gold and Silver Awards in Quality Public Housing Construction and Maintenance Awards 2009
4. Silver, Bronze and Merit Awards in Considerate Contractors Site Award Scheme 2008
5. Gold, Silver, Bronze and Merit Awards in Construction Safety Promotional Campaign 2009



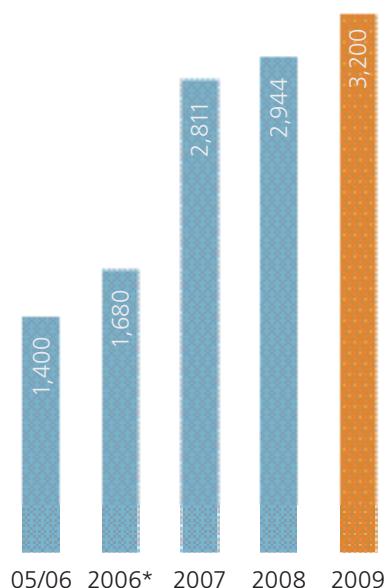
FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2009	2008	Change
Turnover	HK\$3,200 million	HK\$2,944 million	↑ 9%
Profit attributable to shareholders	HK\$807 million	HK\$562 million	↑ 44%
Basic earnings per share	HK\$1.96	HK\$1.75	↑ 12%
Total dividends per share	HK\$0.35	HK\$0.20	↑ 75%
At 31 December			
	2009	2008	Change
Total assets	HK\$18.6 billion	HK\$11.5 billion	↑ 62%
Net assets	HK\$9.0 billion	HK\$5.0 billion	↑ 80%
Net asset value per share	HK\$18.45	HK\$15.53	↑ 19%
Gearing	53%	85%	↓ 32%



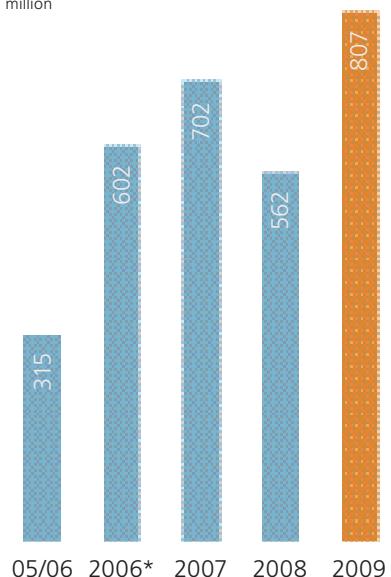
Turnover

HK\$ million



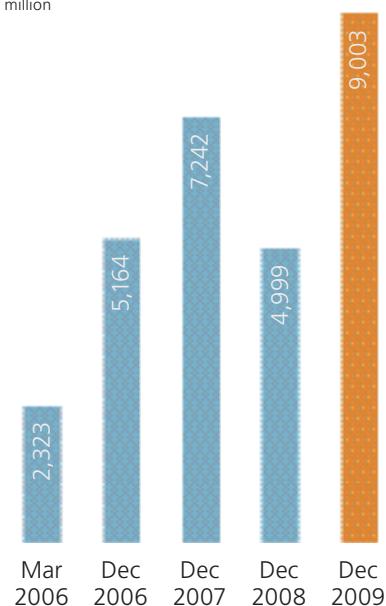
Profit Attributable to Shareholders of the Company

HK\$ million



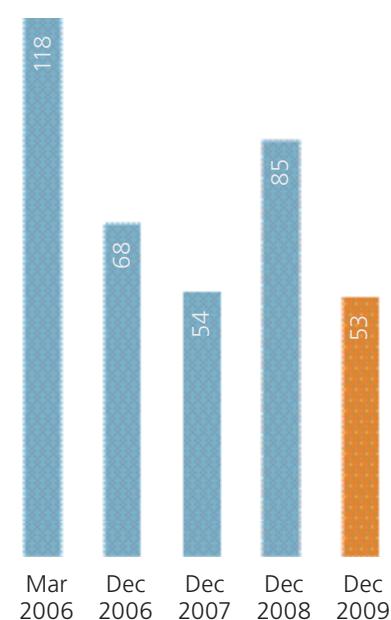
Equity Attributable to Shareholders of the Company

HK\$ million



Gearing

Percentage



* Nine-month period

A professional portrait of Vincent H. S. Lo, a middle-aged man with dark hair and glasses, wearing a dark grey traditional Chinese mandarin collar jacket. He is smiling and looking directly at the camera. The background is a soft-focus outdoor scene with a building and trees.

“ While numerous organisations have put their business plans on hold, we have taken the opportunity to consolidate our core business, sharpen our focus, and refine our long-term growth objectives. I believe your Group is now well placed to scale new heights. ”

Vincent H. S. Lo
Chairman

CHAIRMAN'S STATEMENT

Dear Shareholders,

This time last year, the world was still under the plight of the most severe global economic downturn since the Great Depression. There were serious concerns about whether recovery would be possible, despite aggressive stimulus packages put forward by governments of all major economies.

While numerous organisations have put their business plans on hold, we have taken the opportunity to consolidate our core business, sharpen our focus, and refine our long-term growth objectives. I believe your Group is now well placed to scale new heights.

The Chinese Mainland, where over 90% of your Company's assets are located, was at the forefront of the recovery. While most western economies struggled with fiscal measures to revive investments and consumer spending, the resilient Chinese economy reacted quickly and vigorously to government incentives to restore economic growth and market confidence. The Mainland ended 2009 with an enviable GDP growth of 8.7%. This growth momentum, together with the Mainland's strong fundamentals, is surely favourable to the prospect of SOCAM's core businesses.

For the year ended 31 December 2009, SOCAM reported profits attributable to shareholders of HK\$807 million, an increase of 44% from HK\$562 million in the previous year. The Board of Directors has recommended a final dividend of HK\$0.25 per share. This brings the total dividends to HK\$0.35 per share.

SOLID FINANCIAL STRENGTH

I am pleased to report that throughout this global economic crisis, your Group has remained profitable and has emerged financially stronger. The successful privatisation of China Central Properties (CCP) in June strengthened our asset base considerably. Equity has also been expanded which resulted in a substantially lowered gearing ratio.

The Group decided to privatise CCP in the face of the low liquidity of London's Alternative Investment Market (AIM) and poor share performance that set in during the global economic downturn. This exercise was also a move to streamline the asset management and operation of its property business, and allowed SOCAM to consolidate property as its core operation. The privatisation has created value for both SOCAM and other shareholders of CCP, as investors could exit at a considerable premium over the then prevailing low stock price traded in severely adverse market conditions.

CHAIRMAN'S STATEMENT

SEIZING MARKET OPPORTUNITIES

In the second half of the year, we have taken advantage of market opportunities amid the uncertainty faced by a number of financial investors in the Mainland, and expanded our portfolio and horizons. The Group acquired two projects at attractive discounts, in prime locations in Beijing and Shanghai, with the latter marking our inroad to the highly prosperous Shanghai market. We also took the opportunity to acquire the 30% interest of our Shenyang project from our co-investor based in the United States, which was undergoing restructuring and eager to dispose of its investment.

The favourable and timely sales of the residential units of our Shenyang Project and Chongqing Creative Concepts Center in the second half of 2009 indicated your Group's keen awareness of changing market conditions. The disposals of the Danlong Road project in Chongqing and the serviced apartment portion of the Chengdu Central Point in early 2010 will provide us with fresh capital for further investments, besides realising the value in these assets.

Dalian Tiandi, in which your Group has a 22% interest and is in joint venture with Shui On Land, has made encouraging progress on land acquisitions, leasing, and construction. When fully completed in 2020, this project is poised to benefit from the Central Government's intention to nurture Dalian as a major knowledge hub in the world, and a software development and outsourcing centre in the Mainland. Our success in the development of this project in this early stage has already attracted a number of major corporations in international IT industries to sign up leases for their offices on this site. Strong interest from potential investors and strategic partners has also been forthcoming. Together, we will explore further possibilities in expanding the business of building knowledge communities in other Mainland locations, which we believe is a high growth sector in the coming decades.

“ Together, we will explore further possibilities in expanding the business of building knowledge communities in other Mainland locations, which we believe is a high growth sector in the coming decades. ”

Lafarge Shui On Cement (LSOC) continued to leverage on the rapidly expanding demand for high-quality cement, with plans on the drawing board to further boost its output capacity. The construction of new capacities in Sichuan Duijiangyan, Chongqing Yongchuan and Guizhou Sancha have made good progress. The disposal of the relatively small operations in Beijing in early 2010 reinforced LSOC's strategy to focus on the Southwest region where it has substantial market share.

In Hong Kong, capital works expenditure in the next few years, including that allocated to the vitally important High Speed Rail link with the Mainland, will be in excess of HK\$50 billion per annum, which is a welcome move to maintain the city's competitiveness. In preparation for these increasing opportunities, our construction division will continue to implement proactive measures to further improve our competitive advantages, and maintain our established reputation for quality, safety and environmental management.

COMMITMENT TO THE COMMUNITY

In parallel to our goal for business success, we adhere to our strong commitment towards social responsibility, which has always been part of your Company's core values. We have taken greater care to minimise the negative impact that our business may cause to the environment. We have insisted on the setting of clean, clear and sustainable operating standards, and introduced innovative green designs and concepts for our property, cement and construction projects.

BUILDING ON GOOD CORPORATE GOVERNANCE

Having always been at the forefront in adopting good corporate governance practices, I am particularly pleased to welcome Messrs David Eldon, Chan Kay Cheung and Moses Tsang to join the Board as Independent Non-executive Directors in January 2010. They will no doubt bring a wealth of knowledge and expertise to the Board, at a time when your Group is transforming and expanding its horizons.

SCALING NEW HEIGHTS

There are now clearer signs that, following the implementation of the unprecedented moves by major governments, there is no further warning of a major collapse in the world financial markets and systems, and a broad-based recovery can be expected. The Mainland will undoubtedly continue as a leader in this process, and come out with a much larger, stronger economy that could emerge as the second biggest in the world.

In the shorter term, the Mainland economy will continue with its growth momentum, due partly to the follow-through effects of the Central Government's timely measures, as well as a healthy recovery in exports. The latest government moves to tighten bank lending to curb inflationary pressures should help ensure sustainable economic development over the longer term.

The strength of growth in the Mainland will give your Group a favourable operating environment. Management will continue to search for attractive new property projects, with a view to building this sector into a dominant operation for the Group.

LSOC is entering the next decade as one of the top cement producers to participate in the restructuring of China's cement industry. This well-established joint venture, with dominance in Southwest China, will continue as a leader in technology, production and environmental protection know-how in the industry. Meanwhile, our Hong Kong construction operation has weathered the temporary downturn, and is well positioned to benefit from an increase in activities as the economy and market confidence rebounds.

In the last ten years, SOCAM has been undergoing a transformation from a Hong Kong-focused construction and construction materials company into a predominately Chinese Mainland-based group, tapping into the fast-growing property and cement markets.

The success we have achieved so far is in large part the result of foresight, our ability to capture business opportunities in the Mainland, and the forging of strong synergistic alliances. New challenges will no doubt be faced, but we are ready and have the confidence to overcome them.

A WORD OF THANKS

In closing, I would like to thank my fellow Directors and all our colleagues, whose dedication and hard work I never cease to admire.

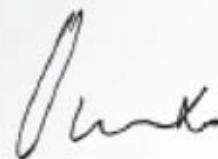
Mrs. Vivien Lowe retired as an Executive Director in December last year, after a long and fruitful career with the Group. Ms. Jeny Lau also resigned from the Board in June last year. On behalf of the Board, I would like to thank both of them for their valuable contributions over the years.

“ The success we have achieved so far is in large part the result of foresight, our ability to capture business opportunities in the Mainland, and the forging of strong synergistic alliances. ”

Mr. Frankie Wong, after serving as Chief Executive Officer since 2004, and Director since the listing in 1997, will retire from day-to-day management responsibilities with the Company in April. He will take up the role of Vice Chairman of your Group and devote his attention to the business and future expansion of LSOC, as well as other responsibilities in the Shui On Group.

I would also like to welcome to the Board Mr. Philip Wong as the new Chief Executive Officer taking over from Mr. Frankie Wong, and Mr. Raymond Wong who rejoins the Group as the Chief Financial Officer.

Challenges and opportunities are always omnipresent but it is the commitment of your Directors and staff to strive for excellence which, together with your continued support, will enable the Group to create meaningful rewards for all our stakeholders.



Vincent H.S. Lo
Chairman

Hong Kong, March 2010





The strength of growth in the Chinese Mainland will give the Group a favourable operating environment. SOCAM will continue to search for attractive property projects, with a view to building this sector into a dominant operation for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

China rebounded more swiftly from the global economic downturn than other major economies with the Central Government's monetary and fiscal stimulus measures proving to be effective in enabling GDP growth to exceed the 8% target for 2009. Yet, although concerns remained as to whether worldwide economic recovery was deep-rooted and sustainable, the Group's property and cement businesses in China continued to record steady and sustainable growth, while the construction business provided synergistic benefits and support, and the process of divesting non-core assets and investments continued gradually.

The implementation of the chosen strategy was reinforced by our continuing transformation, in particular after the successful privatisation of China Central Properties (CCP). The financial position was also strengthened to take advantage of the opportunities ahead. The Group is well placed to reach new heights in the next decade.

BUSINESS REVIEW

	PROPERTY	P.20
	CEMENT	P.28
	CONSTRUCTION	P.34

FINANCIAL REVIEW P.38

“ The Group’s transformation should progress well with its core business continuing to grow in a favourable environment. ”

Frankie Y. L. Wong
Chief Executive Officer



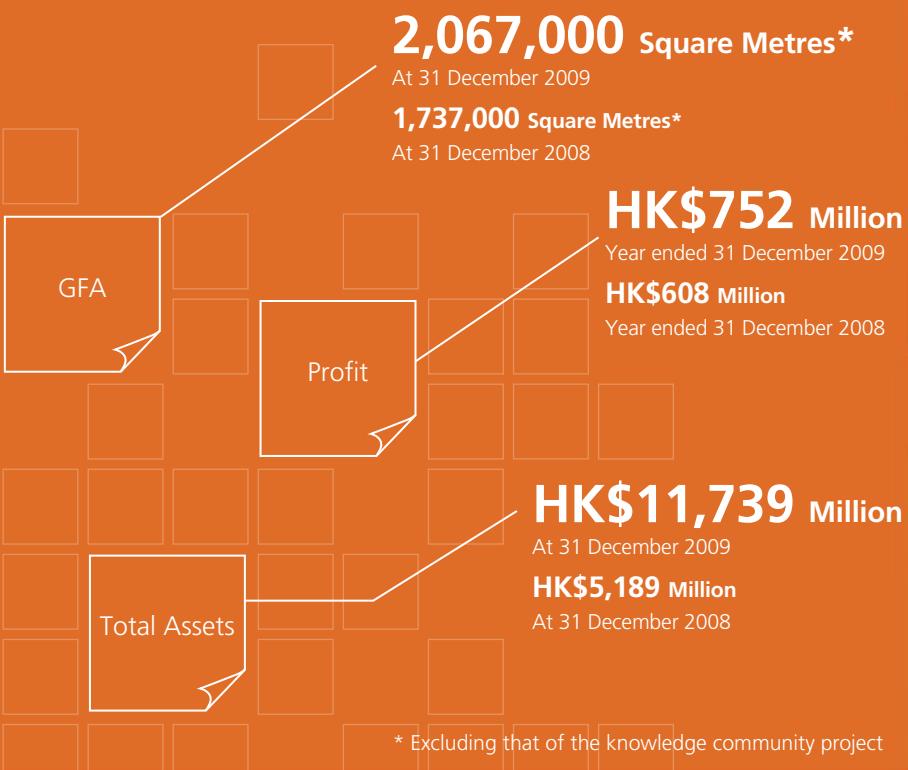


BUSINESS REVIEW

PROPERTY

SOCAM has been established as a leader in distressed and special situation properties in China. The constantly evolving real estate sector in the Mainland will continue to offer the Group a niche segment to thrive in.

FINANCIAL SUMMARY



2009 was a milestone year for SOCAM's property business. In June, SOCAM successfully privatised CCP, its London AIM-listed, real estate, associated company. CCP has achieved enviable results since its listing in June 2007, having built a diversified property portfolio in major Mainland cities and completed and disposed of three prime office buildings in Beijing and Dalian, yielding favourable returns for shareholders.

The privatisation of CCP was a proactive, strategic move to enhance significantly the growth of SOCAM's core business in property. It has also created value for both SOCAM and other investors. The low liquidity of AIM in general contributed to the persistently depressed share prices of CCP and this market could no longer provide an attractive fund-raising avenue for CCP's business growth. The privatisation, completed in June, allowed investors to exit at a value that gave them a considerable premium over CCP's share price. For SOCAM, the acquisition has resulted in a significant expansion in its asset and equity bases, enabling us to capitalise on the exciting investment and development opportunities in the Mainland. The privatisation also resulted in a streamlined corporate structure, which would allow timely investment decisions to be made.

CCP has now established itself as a leader in distressed and special situation properties in China. The constantly evolving real estate sector in the Mainland, whether business landscape or market volatility, will continue to create an abundance of distressed projects and offer CCP a niche segment to thrive in.

Having become a wholly-owned subsidiary of SOCAM, CCP, its principal investment vehicle, was renamed Shui On China Central Properties (SOCCP). In August, all CCP projects were also rebranded under SOCCP to help SOCAM leverage the 'Shui On' brand's reputation for quality and innovation in China. SOCCP's primary focus will continue to be the acquisition and development of distressed and special situation projects. As opportunities arise, we will also build on our success in undertaking medium-sized greenfield projects in prime locations in major and secondary cities in China.

Acquisition Highlights

China has emerged rapidly from the global financial crisis in 2009 and SOCAM has benefited by continuing its search for quality property projects, seizing market opportunities that arose subsequent to the injection of colossal liquidity into the economy, a portion of which might have been unscrupulously invested.

1. Beijing Chaoyang Project

Having disposed of two Beijing projects that generated good returns in 2008, the Group continues to look for investment in prime, partially-completed property projects in the national capital. In October, the Group formed a joint venture and completed the acquisition of a residential project with a gross floor area (GFA) of 57,700 square metres in the Chaoyang District of Beijing at a consideration of US\$118 million. Located in the growing CBD, this project is within walking

	BEIJING	CHENGDU	CHONGQING
Project	Fengqiao Villas Chaoyang Project*	Central Point Orient Home	Creative Concepts Center (formerly Ruiqi Building) Haomen Building Nanyang Building
Total attributable developable GFA (square metres)	76,000 30,300	96,000 474,000	86,000 13,000 53,000
Property type	Residential Residential	Composite Composite	Composite Commercial Residential and retail
Estimated completion year	2010 2011	2010 2013	2010 *** 2011

* The Group has a 52.5% and 80% interest in Beijing Chaoyang Project and Shenyang Project Phase II respectively. The GFAs shown are the effective share attributable to the Group
 ** Yet-to-be sold GFA *** To be sold in its existing condition in 2010

**** Agreement for the disposal of this Project was signed in January 2010, with completion expected in May 2010

distance of the famous Sanlitun district and major embassies and will be developed into a luxury residential property, offering over 200 prime apartments and supporting facilities. Completion is expected in 2011. The Group has a 52.5% interest in the joint venture.

2. Shanghai Lakeville Regency Tower 18

In December, the Group signed a contract to acquire Lakeville Regency Tower 18, marking SOCCP's debut in Shanghai. With the acquisition of this prestigious development at a consideration of US\$46 million, SOCCP brought into its portfolio a luxury residential building with a GFA of approximately 16,800 square metres in the heart of Shanghai. This completed development, comprising 103 top-tier apartment units, is currently managed by a renowned serviced apartment operator. The acquisition was completed in January 2010. SOCCP remains on the look out for further Shanghai property projects.

3. Chengdu Orient Home

The Group completed the acquisition of the remaining 51% interest in Chengdu Orient Home, a greenfield development project near a major interchange station of the future metro line in Chengdu. The current development plan is to build a contemporary composite development comprising 13 residential towers, serviced apartments and a retail podium, with a total GFA of 474,000 square metres.

4. Shenyang Project Phase I

SOCCP now owns 100% of Shenyang Project Phase I (formerly Shenyang Central Plaza Phase I) after acquiring the 30% interest in January from its US based partner. Located at the northern end of the 'Golden Corridor', the burgeoning business and economic centre of Shenyang, this 281,200 square metres GFA high quality complex comprises four residential and two commercial towers above a retail podium. This development is complemented by the adjacent Shenyang Project Phase II, in which the Group has an 80% interest. A total of 800,800 square metres GFA of residential premises, hotel, serviced apartments, offices and retail space will be developed in this phase.

Project Overview

Currently, the Group has a diverse property portfolio of 14 distressed, greenfield and special situation projects comprising approximately two million square metres of attributable developable GFA, all located in prime locations in Beijing, Shanghai, Chengdu, Chongqing, Guangzhou, Shenyang and Qingdao. These projects form a solid base to provide a stable stream of profits upon their completion in the next few years.

At 31 December 2009, the Group's total attributable developable GFA, excluding that of the knowledge community project (see p.26), breaks down as follows:

CHONGQING		GUANGZHOU	QINGDAO	SHANGHAI	SHENYANG	
						
Qianxinian Building	Danlong Road Project	Chuangyi Centre	Central International Plaza (Blocks A and C)	Lakeville Regency Tower 18	Shenyang Project Phase I (formerly Central Plaza Phase I)	Shenyang Project Phase II* (formerly Central Plaza Phase II)
35,000	149,000	112,000	4,000**	16,800	281,200	640,700
Commercial and retail	Residential and retail	Residential and retail	Composite	Residential	Composite	Composite
2011	****	2011	Completed	Completed	2011	2014

TOTAL: 2,067,000 square metres



Chaoyang Project, Beijing

Property Sales

During the year, two projects were put up for pre-sale with both volumes and prices achieving satisfactory results.

1. Shenyang Project Phase I

Offering a unique lifestyle concept ideal for Shenyang's growing professional classes, approximately 30,000 square metres GFA have been pre-sold since this project was released in September 2009. In view of the growing demand for high-end residential premises in Shenyang even at robust price levels, the Group is monitoring market sentiment to best capitalise on further sales opportunities for the remaining residential and commercial spaces in 2010.

2. Chongqing Creative Concepts Center

The Group has created significant value in this unfinished project known as Ruiqi Building, by enhancing its design and repositioning it as Chongqing Creative Concepts Center. Located in the heart of Chongqing's CBD, this prime composite development, consisting of residential, office and retail spaces, has proved to be very popular. About 390 units with 24,200 square metres GFA, representing approximately 80% of the residential portion of this project, have been sold since the pre-sale was launched in September 2009. Release of the remaining residential units as well as the office and retail spaces for sale will continue in 2010.

Subsequent to the year end, the Group entered into agreements for the following disposals:

1. Chongqing Danlong Road Project

In January 2010, the Group signed an agreement for sale of the 29,000 square metres plot of residential land located at Danlong Road in Chongqing, which was converted from an industrial site that previously housed the headquarters of TH Cement, the Group's cement arm in Chongqing. The sale consideration of RMB180 million was slightly above its appraised market value. Completion of this sale is anticipated in May 2010.

2. Chengdu Central Point

Further to the sale in 2008 of the office portion in Phase I to a reputable financial institution, SOCCP entered into an agreement in February 2010 for the disposal of the serviced apartments for RMB367 million. This transaction is expected to be completed in March 2010.

These sales contribute to the Group realising investment gains in line with its business model that focuses on quick asset turnover. The net sale proceeds will also provide the Group with greater financial flexibility to capture other attractive investment opportunities.

Project Progress

The overall development of the projects on hand progressed well during the year, leveraging on our project management expertise. Among these projects, Beijing Fengqiao Villas, Chengdu Central Point and Chongqing Creative Concepts Center will see completion in 2010.

Beijing Chaoyang Project

The project site was handed over to SOCAM in October 2009 upon closing of the acquisition. After the finalisation of the design plans, construction works of this upmarket residential development commenced in the fourth quarter of 2009, with completion set for 2011.

Guangzhou Chuangyi Centre

Demolition work was completed in June. All structural and layout plans, as well as detailed drawings, are at an advanced stage. Foundation works have commenced on a revised blueprint that now provides for 112,000 square metres GFA, comprising three residential towers of 35 storeys and one serviced apartment tower of 31 storeys on a 4-level basement with car parking spaces. The project is due for completion in late 2011, with sales activity planned for the end of 2010.



Lakeville Regency Tower 18, Shanghai



Shenyang Project



Orient Home, Chengdu

Chengdu Orient Home

The groundbreaking ceremony was held in August 2009. Excavation and lateral support works will commence soon. This composite development consists mainly of residential towers. Completion is expected in phases during 2012 and 2013.

Shenyang Project

Construction works of Phase I are progressing as planned. Relocation and clearance of land in Phase II by Shenyang local authorities are near completion. This project was awarded a pre-certificate of LEED (Leadership in Energy and Environmental Design) by the US Green Building Council.



Huang Ni Chuan North, Dalian Tiandi

Knowledge Community Project – Dalian Tiandi

The coastal city of Dalian is being planned to develop into a major shipping, logistics, information technology (IT) and financial centre. The Group holds a 22% interest in Dalian Tiandi, an integrated development with GFA of approximately 3.54 million square metres which includes a software hub, commercial and retail properties, residential, educational, outdoor recreation and environmental facilities, as well as public amenities. The development will be constructed over 10 phases with final completion in 2020.

This project, a joint venture involving Shui On Land, SOCAM and Yida Group, is one with ambitious goals not just in its scale but also with a vision to create a critical mass of software and IT outsourcing industries, business process outsourcing ventures and educational establishments.

Land acquisitions and leasing are progressing smoothly, as are the initial phases of construction. At 31 December 2009, various land plots of total developable GFA of approximately 2.85 million square metres have been acquired. In February

2010, the joint venture also successfully converted the permitted usages of plots of land of approximately 0.71 million square metres of developable GFA at Huang Ni Chuan North from industrial to commercial and residential according to the master plan.

Site formation works of the fourth phase in Site C, Huang Ni Chuan North, which comprises five phases altogether, approached completion at the end of 2009. The construction of two software office buildings with a GFA of 42,000 square metres started in March and will be made available for occupation in the first half of 2010. The construction of two other software office buildings with a planned GFA of 52,000 square metres, three engineers' apartment blocks with a GFA of 40,000 square metres, and the commercial properties at IT Tiandi (excluding carpark) with a GFA of 77,000 square metres have commenced in 2009 and most of them are due for completion by the end of 2010.

In May, the joint venture entered into a lease agreement with Ambow, a US based leader in the education services sector in the Mainland, to build a facility with a GFA of 114,000 square metres for training software and outsourcing talents. Construction work is underway and the facility is scheduled for completion in 2010. A memorandum of understanding has been finalised with a world renowned IT conglomerate in December and is expected to be signed in the first half of 2010 for the development of a 100,000 square metres centre. Negotiations on leases with a number of other leading IT companies are making good headway.

Dalian Tiandi is rapidly taking shape as an eco-friendly, cosmopolitan living and working environment comprising distinct but interconnected zones catered for high-end knowledge industry clients. The Group has also undertaken initial studies to explore the possibility of expanding the concept of the knowledge community into other Mainland cities as well as cooperation with other investors.

SOCAM Asset Management (SAM)

SAM was the investment manager of CCP. Following the privatisation of CCP, SAM continues to act as the principal operation arm of the Group's property business with a remit to source and acquire quality projects, manage the execution, leasing and disposal processes, and generate favourable returns to the Group.

Investment in Shui On Land (SOL)

In June, SOL issued one bonus share for every ten ordinary shares held. It also placed new shares representing approximately 9.1% of its enlarged issued share capital to raise HK\$2,038 million to fund the development of its existing projects. The Group's shareholding in SOL has since remained at approximately 8.7%.

As major stock markets rebounded after the extensive downturn in the global financial crisis in 2008, SOL's share price posted significant gains. The Group's shareholding in SOL had a market value of HK\$2,004 million at 31 December 2009 compared to HK\$970 million at 31 December 2008. This considerable increase in value was reflected directly in the reserves of the Group as required by applicable accounting standards.



A planned area in Huang Ni Chuan North



Software Office Building

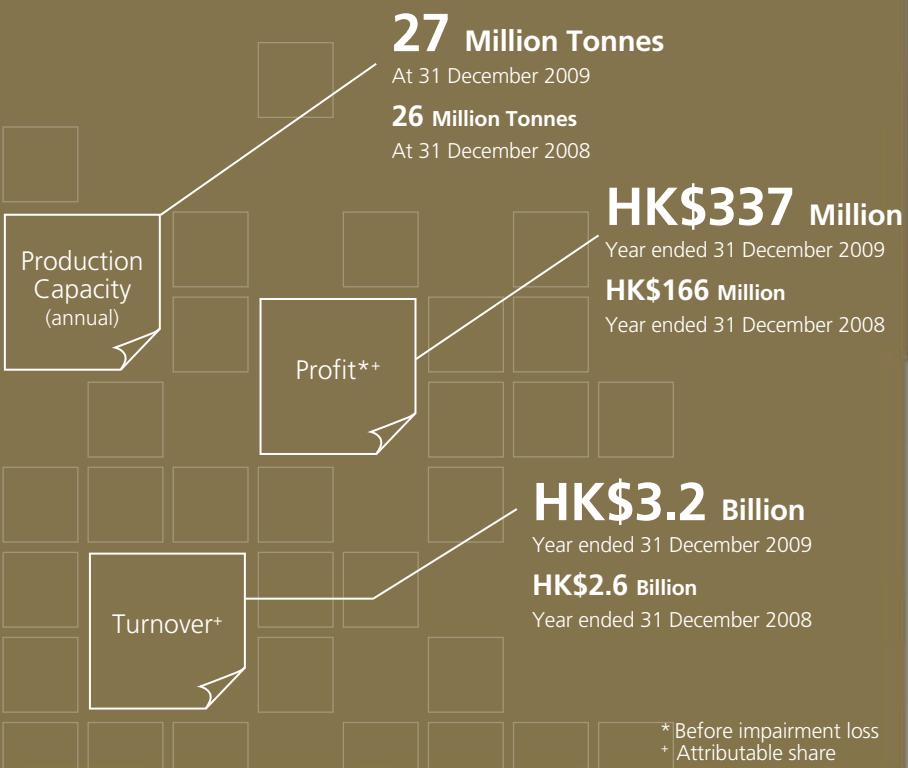


BUSINESS REVIEW

CEMENT

Lafarge Shui On Cement is emerging to be one of the top cement producers to participate in the restructuring of China's cement industry. It will further strengthen its position in the Southwest China where it has significant market share.

FINANCIAL SUMMARY





A LSOC plant in Dujiangyan, Sichuan

“ During the year, Lafarge Shui On Cement’s total sales volume exceeded 23 million tonnes. ”

China’s economy has grown rapidly over recent years, and both investment and domestic consumption have expanded notably. During 2009, benefiting from the Central Government’s substantial stimulus plan in excess of RMB4 trillion which accelerated domestic economic growth amid the global financial crisis, the spending on infrastructure works including high-speed railways, highways and power plants saw significant expansion. Fixed assets investment in 2009 increased by more than 29% from the previous year, with an increase above the national average in the southwest region where LSOC has its operations. Massive infrastructure development, coupled with increasing urbanisation and rural modernisation, are driving the demand for cement. In 2009, China’s cement output reached 1.63 billion tonnes, representing a growth of 17.9% from the previous year.

The Central Government continues to demand improved cement quality compliance to raise industry standards and encourages consolidation and restructuring of the cement industry. Out-dated, energy-inefficient and polluting producers

are being phased out in a bid to conserve energy and reduce carbon emissions. In tandem, incentives have also been offered to concentrate output around major players that have a strong capital base, high product quality and whose processes are environmentally friendly.

The overcapacity situation in China’s cement industry, particularly that in Sichuan, may have been exaggerated as certain new plants are substandard and many proposed new capacities are unlikely to proceed to construction. The Central Government’s policy to curb unrealistic capacity expansion, together with accelerating closure of old-fashioned capacities, will continue to eliminate weak players in the industry.

Lafarge Shui On Cement (LSOC)

LSOC, in which the Group holds a 45% interest, remains the cement market leader in Southwest China with major presence in Sichuan, Chongqing and Yunnan. LSOC is among the top cement enterprises recognised by the Central Government for its advanced technology, large-scale operations, good operating performance and its commitment to safety and sustainable development.

Total annual production capacity of LSOC stayed at approximately 24 million tonnes during the year.



Operating Performance

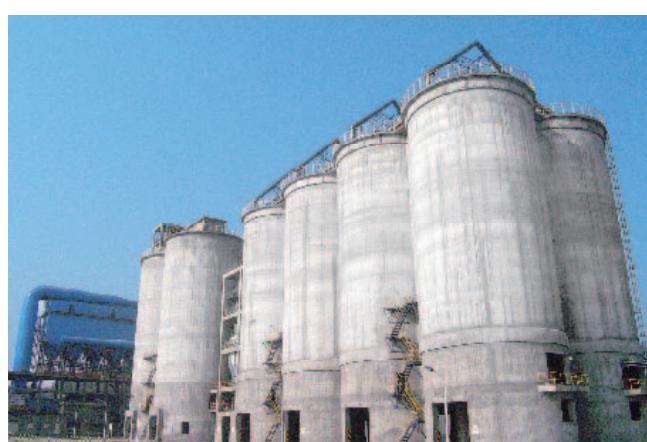
In 2009, LSOC's total sales volume exceeded 23 million tonnes, an increase of 31% from 2008, a year in which the earthquake in May caused partial production suspension at its two major plants in Sichuan. Good market demand, despite keen competition, coupled with the high utilisation and operational reliability rates of LSOC's plants, resulted in robust increases in production and sales volumes.

The strong upward adjustment in cement prices in the southwest region in the past two years has attracted considerable investment in new capacities and intensified competition. LSOC started 2009 with favourable selling prices in all business units but operations in Sichuan and Chongqing experienced considerable price pressure from mid-May onwards, due to excess supply from major competitors in nearby provinces as well as new capacities coming onto the market. Cement prices staged a steady recovery in November, propelled by improved market conditions. The average selling price for the year dropped by about 5% to RMB291 per tonne, from RMB307 per tonne the year before. Boosted by higher volumes, total turnover for 2009 increased to HK\$8.1 billion from HK\$6.2 billion in 2008.

Gross profit margin increased as the drop in selling prices was more than compensated for by lower costs, which were attributed to the much greater volumes produced, the decrease in the prices of coal and power and the



LSOC's plants possess high utilisation and operational reliability rates



LSOC is the cement market leader in Southwest China

implementation of various cost saving initiatives. The waste heat recovery systems installed in a number of plants have lowered energy consumption, further enhancing profit margins. LSOC achieved total EBITDA of approximately HK\$2.1 billion for the year. Profit attributable to SOCAM increased from HK\$133 million in 2008 to HK\$265 million in 2009.

Expansion Plans

LSOC made good progress with its capacity expansion plans. Construction of the third line in Dujiangyan, Sichuan and the new dry kilns in Yongchuan, Chongqing and Sancha, Guizhou were on schedule with completion expected in mid 2010. This additional capacity of 13,800 tonnes per day (tpd) will further strengthen LSOC's leadership position in Southwest China.

Another five dry kilns with an aggregate capacity of 17,500 tpd in strategic locations in Sichuan, Chongqing and Yunnan will commence construction in due course. A number of other new projects in LSOC's core operating region are also on the drawing board and applications for government approvals are well under way.

LSOC's expansion plans will continue and a number of acquisitions of its competitors are under consideration. Although the Central Government has expressed concern over excessive investment in a number of heavy industries in the Mainland, including cement, LSOC is confident that

demand for cement in its regional markets will remain strong and sustainable as the inexorable development of the Chinese hinterland continues.

Assets Injection

The proposed injection by LSOC of its 50% interest in the Dujiangyan plants into Sichuan Shuangma Cement at a valuation of RMB2.8 billion in consideration for new shares issued by Shuangma has not proceeded as smoothly during the year as originally anticipated. This asset injection received the approval of Shuangma's independent shareholders in January 2009 and of the Ministry of Commerce in June 2009. Affected adversely by the decrease in cement prices in Sichuan during the second half of the year, the valuation of this 50% interest in Dujiangyan plants was lowered to approximately RMB2.3 billion. The asset injection proposal at the revised valuation received the approval of Shuangma's independent shareholders in January 2010. Final approval from the China Securities Regulatory Commission is being sought. It is expected this asset injection will be completed in the second quarter of 2010.

On completion, LSOC will hold beneficial interests of about 78% and 64% in the Shuangma and the Dujiangyan plants respectively. The asset injection will further consolidate LSOC's leadership position in Sichuan through this Shenzhen-listed company.



Massive infrastructure development, coupled with increasing urbanisation, are driving the demand for cement

Sustainability

In 2009, LSOC was approaching the half way mark of its five-year plan called 'Sustainability Ambitions 2012'. Key areas of this corporate initiative include energy saving, emission reduction and quarry rehabilitation. Through the implementation of various initiatives, LSOC was able to reduce energy consumption and enhance operational efficiency, which is important to an industry where coal and electricity typically account for some 30% of the production costs.

The progressive installation of waste heat recovery systems in certain LSOC plants continues, which lowers coal consumption and reduces carbon emissions, while generating electricity with the exhaust heat from the clinker production process.

Divestment

In February 2010, LSOC entered into an agreement for the disposal of its small cement and concrete operations in Beijing, which have total annual production capacities of one million tonnes of cement and 300,000 m³ of concrete. This divestment, subject to relevant minority shareholders' consents and government approvals, is in line with LSOC's strategy to strengthen its operations and leadership position in the Southwest China.



LSOC continues to reduce energy consumption and enhance operational efficiency

Guizhou Cement

A new dry kiln in Changda commenced production in the first quarter of 2009, adding an additional 2,500 tpd capacity to the cement plants retained by the Group in Guizhou. The total sales volume of Xishui, Zunyi, Kaili, Yuqing, Bijie and Changda increased to 1.7 million tonnes during the year. The average selling price eased to RMB327 per tonne, compared with RMB341 in 2008, due to increased competition, albeit there is sustained market demand for building and infrastructure works. Gross profit margins improved as coal and power prices stayed at relatively low levels for much of the year.

The construction of the new 2,500 tpd dry plant in Kaili experienced some delay due to the supply of certain major equipment being affected by the Sichuan earthquake. Commissioning started in August and production commenced in the later part of the year.

LSOC will be the flagship of the cement business of both SOCAM and Lafarge in the Mainland. SOCAM is executing an exit plan for the remaining cement plants it holds. The Yuqing plant was disposed of in April. The Zunyi and Bijie plants are expected to be closed down by the end of 2010 and SOCAM seeks to re-develop the plant sites into property projects after approvals from relevant local authorities are obtained. Negotiations for the sale of other plants are underway.

Grinding Plant in Nanjing

The grinding plant in Nanjing continued to supply to both local customers and markets in Australia. It benefited from steady selling prices and much lower purchased clinker cost, and achieved an improved operating performance.



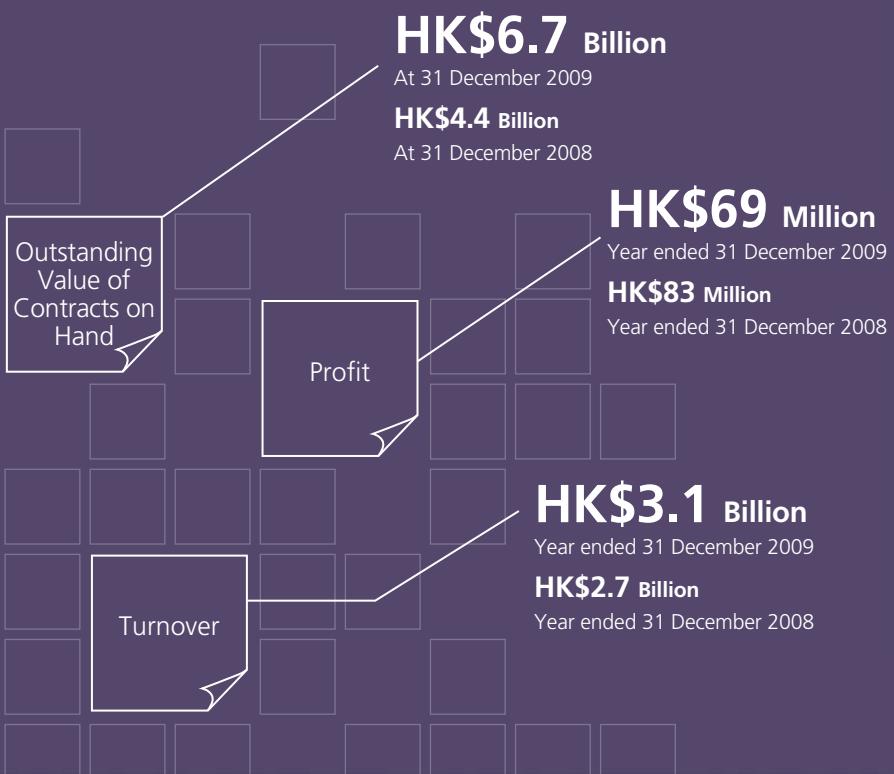


BUSINESS REVIEW

CONSTRUCTION

SOCAM continues to maintain a leading position in the industry being recognised for its outstanding achievements in environmental management, safety and project best practices.

FINANCIAL SUMMARY



“ The Group’s construction business performed steadily during the year in a climate of keen competition and a depressed market. ”

Activity in the construction sector in Hong Kong contracted 3.9% in real terms over the year. Forecasts for 2010 point to a return to growth with construction activity increasing by 2.6%. This is reinforced by forecasts of Hong Kong’s real GDP growing by 5.9% in 2010, following a 2.6% decline in 2009. The Group expects a more favourable operating environment for its construction business in the immediate years ahead.

The division’s total turnover for the year was HK\$3,065 million (2008: HK\$2,729 million), while new contracts totalling HK\$4,767 million (2008: HK\$3,425 million) were won. Profit attributable to the division amounted to HK\$69 million, a decrease of 16% from the previous year, mainly because of the write-off of tendering costs of design-and-build projects.



Hong Kong Eastern Harbour Crossing Site Phase 4

During the year, our construction division continued to implement proactive measures to improve alliances and competitive advantages. Considerable importance is placed on the need for greater safety, environmental awareness, energy-saving construction, waste management and recycling. A tight control has at the same time been maintained on project costs and corporate overheads to enhance the profitability of existing contracts. These measures are set against a background of uncertainty and building material prices and labour costs are likely to edge upwards as the HKSAR Government’s 10 major infrastructure projects gather momentum.

A number of tenders were submitted throughout the year, some of which are pending assessment by the clients. Looking forward, tender opportunities for design-and-build and construction-only projects from both the Hong Kong Architectural Services Department (ASD) and the Hong Kong Housing Authority (HKHA) are expected to increase. Our track record of timely completion and safety and environmental awareness will play an increasingly important role in the award of contracts. Throughout 2009, we continued to gain industry and government recognition with regard to environmental and safety standards and project best practices.

At 31 December 2009, the gross value of contracts on hand was approximately HK\$10.6 billion (2008: HK\$7.7 billion) and the value of outstanding contracts to be completed was approximately HK\$6.7 billion (2008: HK\$4.4 billion).

Shui On Building Contractors (SOBC)

During the year, SOBC secured significant market share in the maintenance projects of ASD and HKHA. It was awarded three 2- and 3-year maintenance contracts by ASD for the design and construction of minor works on government and subvented properties, valued at approximately HK\$1.2 billion. It also secured four 2- and 3-year maintenance and refurbishment contracts for various housing estates from the HKHA, valued at approximately HK\$678 million. This was augmented by a HKHA public housing contract for Shek Kip Mei Estate Phase 5, with a value HK\$718 million.

Major projects completed by SOBC included Lam Tin Estate Phases 7 and 8 and three district term maintenance contracts for HKHA.

Shui On Construction (SOC)

Good progress has been made on design-and-build projects, including the HK\$1 billion contract for the new headquarters of the Hong Kong Customs and Excise Department. The contract for the design and construction of an indoor recreation centre and library at a Community Hall in Tung Chung was completed.



The new Headquarters Building of the Hong Kong Customs and Excise Department (under construction)

Subsequent to the year-end, SOC was awarded two contracts from ASD for the construction of the Town Park and Indoor Velodrome-cum-Sports Centre in Tseung Kwan O, and the design and construction of staff quarters for the Immigration Department in Kwai Chung, valued at approximately HK\$1,261 million in total.

Shui On Construction, Mainland (SOCM)

SOCM, the Group's 70%-owned construction arm in the Chinese Mainland, saw a considerable reduction in turnover in the early part of the year as uncertainty arising from global economic conditions continued. This trend reversed in the second half of the year. During the year, RMB1.4 billion worth of new contracts was secured, including construction works for the Chongqing Tiandi, Foshan Lingnan Tiandi, Chongqing Creative Concepts Center and Shenyang Project Phase I from SOL and SOCCP.

SOCM completed a number of major projects during the year, including Wuhan Tiandi Lots A4-3 and A6, upgrading works for Chongqing Tiandi, and project management for International Capital Plaza, a Grade-A office and retail complex in Shanghai.

Pat Davie

Our interior fit-out and refurbishment arm Pat Davie (PDL) saw business picking up significantly in Hong Kong after a slow start to the year due to cautious market sentiment. Retail refurbishment and relocation of investment banks' offices provided increasing business activity later in the year. New income streams are expected from the growing number of renovations in disused commercial and industrial buildings.

New contracts in Macau were, as anticipated, limited as major hotel and casino projects stalled. Projects in Macau are expected to be revived in 2010 after a number of successful IPOs of the gaming industry on the Hong Kong Stock Exchange and relaxation of the visitor policy from the Mainland.

Fit-out and refurbishment projects were completed for the MTR Corporation, The Link, Airport Authority and Urban Renewal Authority in Hong Kong and City of Dreams and MGM in Macau during the year.

PDL was awarded a total of approximately HK\$590 million worth of new contracts, of which 96% and 4% by value were in Hong Kong and Macau respectively. Major contracts in Hong Kong include the fit-out of new offices of major financial institutions and refurbishment of shopping malls. After the year-end, PDL won offices fit-out and wet market refurbishment contracts in Hong Kong for a total value of approximately HK\$75 million.

VENTURE CAPITAL

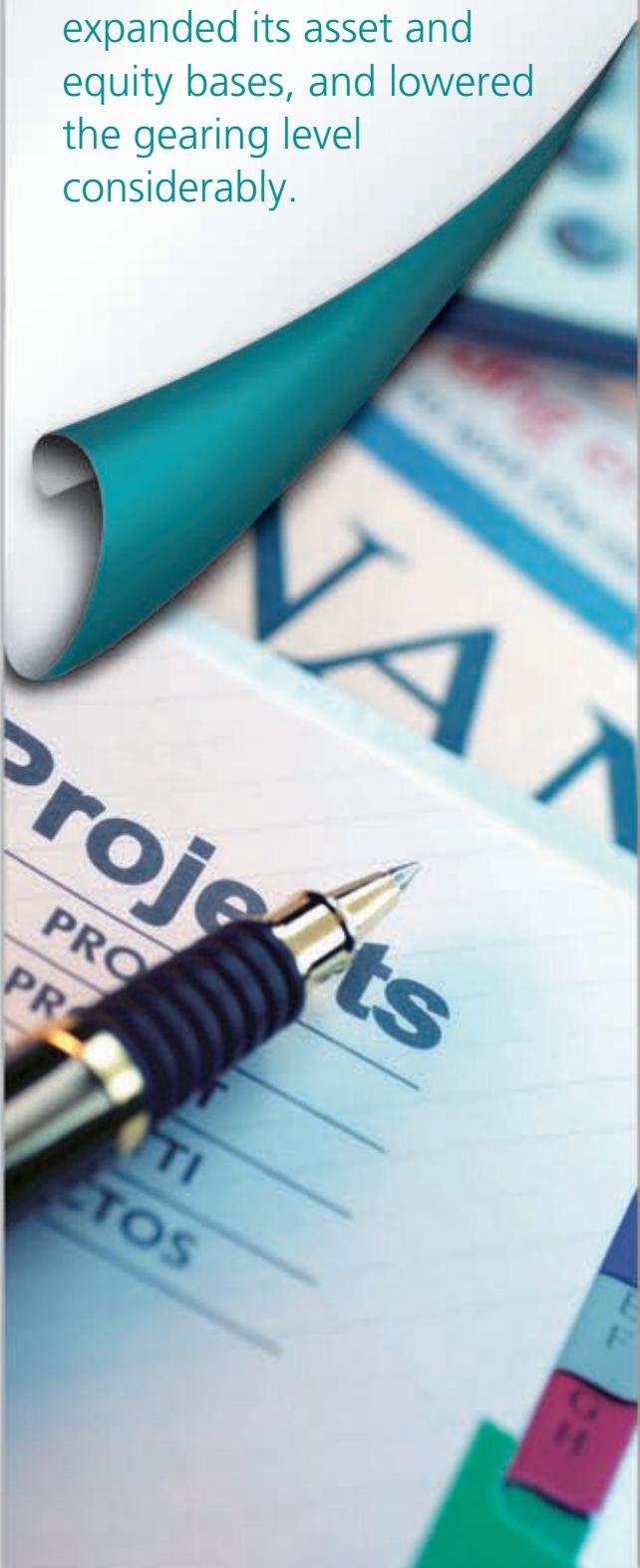
The Group was a 65.5% and 75.4% shareholder respectively in the two Yangtze Ventures Funds, and a 66.8% and 60.5% shareholder respectively in the Series A and Series B Participating Shares of the On Capital China Fund. All three funds remained fully invested throughout the year.

As the global financial markets recovered during the year, the investment portfolios produced an overall net profit of HK\$10 million to the Group. At 31 December 2009, the total value of the investment portfolio attributable to the Group amounted to HK\$303 million, up from HK\$289 million a year ago.

Venture capital is considered a non-core operation of the Group and a strategy of orderly exit has been adopted.

FINANCIAL REVIEW

The Group has significantly expanded its asset and equity bases, and lowered the gearing level considerably.



Financial Results

The Group's profit attributable to shareholders for the year ended 31 December 2009 was HK\$807 million on a turnover of HK\$3,200 million, compared with the HK\$562 million profit and HK\$2,944 million turnover recorded for the previous year.

The Group's property business prior to the privatisation of CCP in June 2009 was principally undertaken through associates while its cement operations and venture capital investments are conducted through jointly controlled entities. Accordingly, the HK\$3,200 million turnover for the year has not included the Group's share of the turnover of these jointly controlled entities and associates. An analysis of the total turnover is shown below:

	Year ended 31 December 2009 HK\$ million	Year ended 31 December 2008 HK\$ million
Turnover		
SOCAM and subsidiaries		
Construction and building maintenance	3,065	2,729
Property	127	188
Others	8	27
Total	3,200	2,944
Jointly controlled entities and associates		
Cement operations	3,191	2,579
Property	3	1,089
Others	3	21
Total	3,197	3,689
Total	6,397	6,633

Turnover from construction and building maintenance works and cement operations increased during the year on higher business volumes. However, total turnover decreased slightly to HK\$6,397 million for the year, largely attributable to the fact that CCP achieved minimal property sales revenue following the sales of a number of properties in the previous year, which generated revenue in excess of HK\$3.4 billion, as most of the property projects on hand were in planning and construction stages during the year.

An analysis of the profit attributable to shareholders is set out below:

	Year ended 31 December 2009 HK\$ million	Year ended 31 December 2008 HK\$ million
Property		
Project fee income	108	188
CCP	58	144
Dalian Tiandi	(10)	(3)
Discount on acquisition of interest in CCP	648	85
Net fair value gain on investment properties	85	303
Overheads	(137)	(109)
	752	608
Investment in SOL		
Dividend income	8	67
Net gain on disposal of shares	–	496
Impairment losses	–	(558)
	8	5
Cement operations		
LSOC	309	133
Guizhou cement	28	33
Disposal and impairment losses	(52)	(18)
	285	148
Construction	69	83
Venture capital	10	(213)
Convertible bonds		
Fair value gain on derivatives	1	239
Imputed interest expense	(28)	(48)
	(27)	191
Net finance costs	(186)	(158)
Corporate overheads and others	(83)	(80)
Taxation and non-controlling interests	(21)	(22)
Total	807	562

Property

Property operations reported a total net profit of HK\$752 million. Management fee income from CCP decreased substantially to HK\$108 million because all fee income earned by SAM from the CCP projects subsequent to CCP becoming a wholly-owned subsidiary of the Group in June 2009 has been eliminated on consolidation.

Following the sales of a number of properties in 2008, CCP achieved minimal property sales revenue and profit in 2009 as most of the property projects on hand were in the planning and construction stages. The profit from CCP for the year largely came from the gain recognised by CCP on early cancellation of its outstanding convertible bonds in June, of which the Group had a 42.9% share prior to privatisation of CCP.

For the acquisition of the remaining 57.1% equity interest in CCP in the privatisation, SOCAM issued a total of 165.8 million new shares, in addition to paying cash of £10.7 million (HK\$135 million), to CCP shareholders. The consideration paid is equivalent to HK\$12.8 per CCP share and generated a gain on acquisition (technically termed a discount on acquisition) of HK\$692 million when compared with the HK\$18.2 net asset value per CCP share. On the other hand, the consideration paid reflected a substantial premium over CCP's share price prior to the announcement of the Company's offer in March.

As a condition to the offer made by the Company for CCP shares, CCP cancelled all the outstanding convertible bonds at a cash price equivalent to 90% of their principal amount. The Group received a sum of US\$22.5 million (HK\$174 million) from CCP for the early cancellation of its US\$25 million investment in CCP's convertible bonds and recorded a loss of HK\$44 million, which comprised the 10% discount to the principal amount and the loss of fair value of the convertible bonds upon early cancellation.

The discount on acquisition of CCP, net of the loss on early cancellation of the bonds by CCP, amounted to HK\$648 million and has been recognised in the consolidated income statement for the year. In 2008, the Group recognised a HK\$85 million gain on the deemed acquisition of its interest in CCP, as this associate of the Group at that time repurchased shares at a discount to its net asset value per share.

The valuation of the commercial portion of the properties currently under development, which will be held as investment properties after completion, at Dalian Tiandi, Shenyang Project Phase I and Chengdu Orient Home, at the year-end, produced a gain of HK\$85 million for the Group. In the previous year, the HK\$303 million revaluation gain arose from Dalian Tiandi and the Chongqing Danlong Road project.

Overheads of SAM and CCP increased to HK\$137 million in 2009, largely due to an increase in staff costs and share option charges.

MANAGEMENT DISCUSSION AND ANALYSIS – FINANCIAL REVIEW

Investment in SOL

In June 2009, SOL issued bonus shares to its shareholders, on the basis of one new share for every ten shares held. The Group received 39.6 million SOL shares, valued at HK\$222 million.

The SOL share price staged a strong rebound during the year. Based on the closing price of the SOL shares on 31 December 2009, when compared with the carrying value at 31 December 2008, the Group recorded a gain in fair value of HK\$812 million on its 8.7% holding of SOL shares, which were held as available-for-sale investments.

The above gains on the Group's shareholding in SOL, totalled HK\$1,034 million, were taken up directly in reserves in the consolidated balance sheet at 31 December 2009 in accordance with applicable accounting standards.

In 2008, the HK\$496 million net gain on disposal of SOL shares arose from the sale of 3.1% of SOL shares for HK\$1.0 billion in April that year. However, a separate HK\$558 million impairment loss was reported due to the diminution in fair value of the SOL shares held by the Group when marked to market at that year-end amid the global financial crisis, which developed in the third and fourth quarters of that year.

Cement operations

The Group's 45% share of LSOC's profit increased to HK\$309 million in 2009, largely due to the much higher volume of 23 million tonnes produced and sold and increased margins on lower production costs, despite the significant drop in selling prices in Sichuan and Chongqing in the second half as new production capacities came onto the market. Production and sales in 2008 were adversely affected by the earthquake in Sichuan in May, though this had limited financial impact on LSOC as damages and losses were covered by insurance.

The cement plants in Guizhou retained by the Group recorded a lower profit for the year, when compared to the previous year, largely due to a decrease in prices in the second half on increased competition and less value added tax refund for wet kiln operations after a change of government policy in August 2008. However, higher production and sales volumes contributed by the new dry kiln in Changda and a drop in coal and fuel prices reduced the profit decrease.

In 2009, the Group incurred HK\$8 million losses on the disposal of a cement plant and a grinding station in Guizhou and shared HK\$44 million impairment loss provision made by LSOC on the initial construction costs of two new dry lines in Sichuan and Guizhou which were suspended due to unexpectedly high investment costs and increased market competition from new capacities respectively. In 2008, the Group provided for HK\$18 million losses on the disposal of a concrete plant and a batching plant in Guizhou.

Construction

Our construction business reported a decline in profit for the year, despite an increase in turnover, mainly because of the write-off of HK\$12 million costs incurred in tendering unsuccessfully for a number of design-and-build projects and less high-margin fit-out works, particularly in Macau. These lowered the average net profit margin to 2.2% of turnover from 3.0% for the previous year.

Venture capital

The venture capital funds in which the Group invests posted marked-to-market gains on the portfolio of listed shares as the global financial markets recovered during the year and realised a profit on the partial sell-down of our interest in a manufacturer of biodegradable materials. However, provision for impairment loss was made on the fund's investment in a wireless broadband access provider in China because of the delay in its roll-out plan. When assessed in total, these funds contributed a small profit of HK\$10 million to the Group.

In the previous year, the HK\$213 million loss incurred by the Group's venture capital investments was largely attributable to the considerable decrease in the prices of the listed shares held by the funds as a result of the drastic downturn in global stock markets during that year, coupled with a significant decline in the exchange rates of major currencies against the US dollar in the last quarter of 2008.

Convertible bonds

In accordance with the terms of the convertible bonds issued by the Company, the conversion price of the bonds was further adjusted from HK\$15.41 to HK\$12.34 on 31 May 2009. No conversion of the bonds occurred during the year, as the Company's share price continued to stay below the conversion price. The HK\$385 million outstanding bonds were redeemed in full at 118.971% of their principal amount pursuant to the terms of the bonds for a total consideration of HK\$458 million on the maturity date of 31 July 2009.

Imputed interest expense, being charged at an effective interest rate of 12.5% p.a. on the straight debt component of the outstanding bonds, decreased to HK\$28 million for 2009, compared to HK\$48 million for 2008, mainly due to full redemption of the outstanding bonds in July 2009.

The substantial decline in the Company's share price in 2008 resulted in a significant fair value gain of HK\$239 million on the outstanding convertible bonds of the Company.

Net finance costs

Net finance costs increased to HK\$186 million for the year, from HK\$158 million for the previous year, mainly because of: (a) the increase in bank borrowings during the year to finance the full redemption of outstanding convertible bonds, the privatisation of CCP and the acquisition of property projects, coupled with the consolidation of CCP's bank borrowings upon privatisation; and (b) the general rise in interest margins charged by banks on the Group's credit facilities as a result of the global financial crisis, despite a considerable decline in HIBOR driven by excess liquidity in the banking system in Hong Kong.

Assets Base

The total assets and net assets of the Group are summarised as follows:

	31 December 2009 HK\$ million	31 December 2008 HK\$ million
Total assets	18,641	11,536
Net assets	9,003	4,999
Net assets per share	18.5	15.5

Both the total and net assets of the Group increased substantially, due mainly to: (a) the consolidation of the total assets of the privatised CCP; and (b) the HK\$1,034 million increase in market value of the Group's shareholding in SOL at 31 December 2009.

An analysis of the total assets by business segments is set out below:

	31 December 2009 HK\$ million	31 December 2008 HK\$ million	31 December 2008 %
Property	11,739	5,189	45
Cement	5,036	4,458	39
Construction	1,059	950	8
Others	807	939	8
Total	18,641	11,536	100

As a result of the privatisation of CCP, the value of property assets expanded substantially and accounted for 63% of the Group's total assets at 31 December 2009, up from 45% at 31 December 2008, while cement and construction operations saw a decline in the proportions of total assets when compared to their positions a year ago, despite increases in their respective asset values.

Equity, Financing and Gearing

The shareholders' equity of the Company also increased considerably to HK\$9,003 million on 31 December 2009, from HK\$4,999 million on 31 December 2008. This was the result of (a) the HK\$1,928 million increase in share capital and share premium as a result of the issue of 165.8 million new shares by the Company for the privatisation of CCP during the year; (b) the increase in market value of the Group's shareholding in SOL as mentioned above; and (c) the HK\$807 million profit for the year.

Net borrowings of the Group, which represented bank borrowings, net of bank balances, deposits and cash, amounted to HK\$4,796 million on 31 December 2009. This compared with HK\$4,255 million on 31 December 2008, which included outstanding convertible bonds that were redeemed in full in July 2009. During 2009, the Group drew on its credit facilities to finance the privatisation of CCP and acquisition and construction of property development projects, leading to an increase in the net borrowings of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS – FINANCIAL REVIEW

The maturity profile of the Group's net borrowings is set out below:

	31 December 2009 HK\$ million	31 December 2008 HK\$ million
Bank borrowings repayable:		
Within one year	4,980	3,448
After one year but within two years	940	320
After two years but within five years	720	750
Total bank borrowings	6,640	4,518
Convertible bonds due 2009	–	430
Total borrowings	6,640	4,948
Bank balances, deposits and cash	(1,844)	(693)
Net borrowings	4,796	4,255

Both bank borrowings and bank deposits increased significantly during the year, which is largely attributable to the consolidation of the property business of CCP in the Group's accounts subsequent to the privatisation.

The net gearing ratio of the Group, calculated as net borrowings over shareholders' equity, decreased substantially to 53% at 31 December 2009, from 85% at 31 December 2008, mainly as a result of the enlarged shareholders' equity as explained above.

The Group has significantly strengthened its consolidated balance sheet during the year and will continue to seek longer term financing facilities, which match more closely its assets portfolio. Subsequent to year-end, HK\$250 million bank loans were repaid, HK\$150 million and HK\$1,075 million bank loans were renewed for a further one and two years respectively, and HK\$334 million new term loans and a HK\$200 million revolving credit facility were obtained from banks.

Treasury Policies

The Group's financing and treasury activities are centrally managed and controlled at the corporate level.

The Group's bank borrowings are mainly denominated in Hong Kong dollars and have been arranged on a floating-rate basis. Investments in the Chinese Mainland are partly funded by capital already converted into Renminbi and partly financed by borrowings in Hong Kong dollars. Renminbi financing is at project level only where the sources of repayment are also Renminbi denominated. Given that income from operations in the Chinese Mainland is denominated in Renminbi, the Group expects that fluctuation in the Renminbi exchange rate will have little negative effect on the Group's business performance and financial status. Therefore, no hedging against Renminbi exchange risk has been effected. It is the Group's policy not to enter into derivative transactions for speculative purposes.

Employees

At 31 December 2009, the number of employees in the Group was approximately 1,160 (31 December 2008: 1,040) in Hong Kong and Macau, and 13,660 (31 December 2008: 13,900) in subsidiaries and jointly controlled entities in the Chinese Mainland. While staff costs are kept stable during the year, employee remuneration packages are maintained at competitive levels and employees are rewarded on a performance-related basis. Other staff benefits, including provident fund schemes and medical insurance, remained at appropriate levels. The Group continued to retain and develop talent through executive development and management trainee programmes. Share options are granted annually by the Board of Directors to senior management and staff members under different schemes as reward and long-term incentives. Likewise, in the Chinese Mainland, staff benefits are commensurate with market levels, with an emphasis on building the corporate culture and providing professional training and development opportunities for local employees. It remains our objective to be regarded as an employer of choice to attract, develop and retain high calibre competent staff.



Frankie Y.L. Wong
Chief Executive Officer

Hong Kong, March 2010



CORPORATE SOCIAL RESPONSIBILITY



GOING AN EXTRA MILE IN CORPORATE SOCIAL RESPONSIBILITY

“ Successful enterprises today seek to be regarded as socially responsible. A caring company goes further. We consider it our duty to contribute to the welfare and progress of the community, the preservation and enhancement of the environment, and the well-being and individual development of our employees. At Shui On – We Care. ”

Vincent H.S. Lo *Chairman*

The Group passed a major milestone on its CSR journey this year by winning the Best Practice Award in Corporate Social Responsibility 2009. This award honours companies that go an extra mile in fulfilling their duties as responsible corporate citizens.

During the year, we also launched the “We Care” operations throughout our offices in the Chinese Mainland.

In March, staff members of all levels came together to show their commitment to the building of a caring world around them in the “We Care Week”, with CSR activities spreading to all workplaces in the Mainland, Hong Kong and Macau.

In this section, major achievements of the Group on our commitment to caring for our society through different corporate and regional events are reported.

THE CSR STRUCTURE

The CSR Steering Committee is responsible for coordinating and overseeing the effective implementation of the CSR policy throughout the Group and, in particular, for promoting the personal involvement of our employees in related activities.

The management of each business operation in the Group is tasked with identifying and adopting systems, certifications and practices most appropriate for the operation. Also, yardsticks for measuring achievements in accordance with the direction of our CSR policy are established and monitored.

A three-pillar model for our CSR programme has been adopted, in which the Community, the Environment and our People are integral parts of the “We Care” culture.

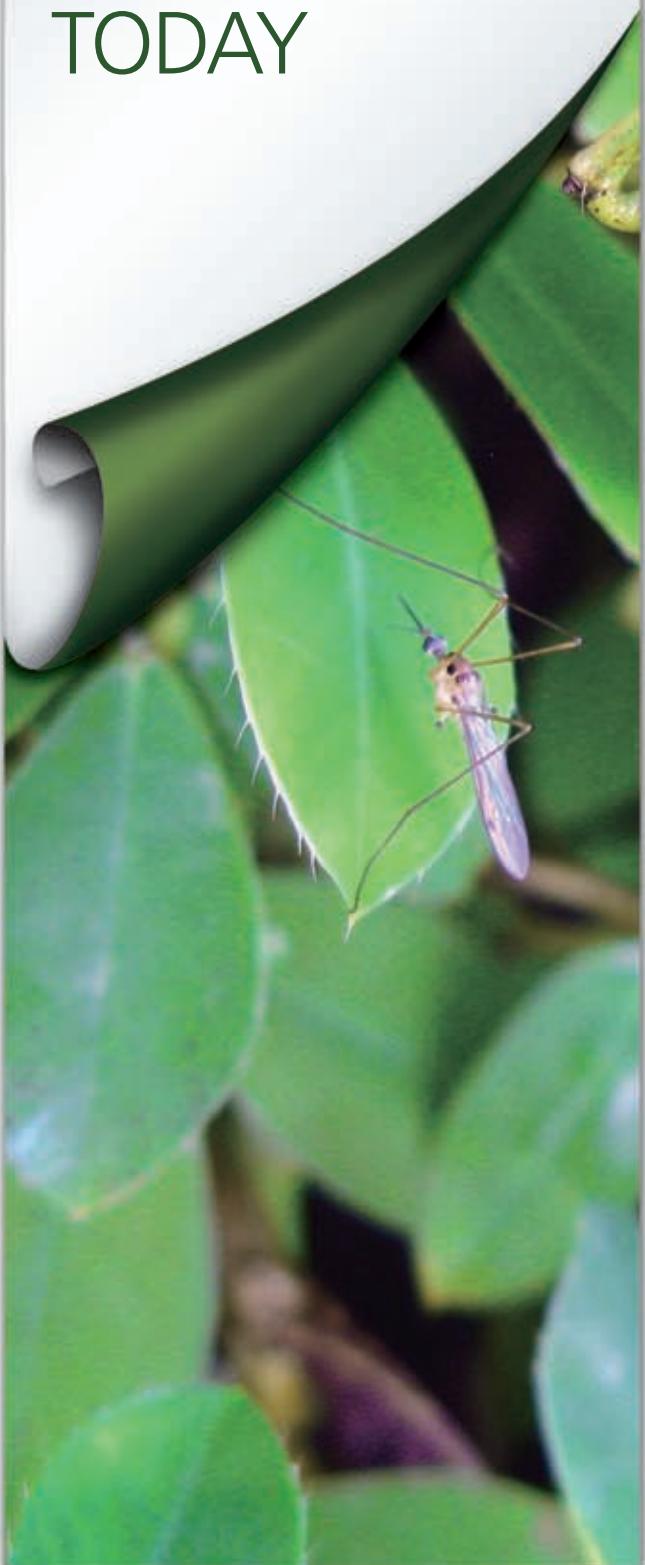
Caring for
the Community

Caring for
the Environment

Caring for
Our People

CORPORATE SOCIAL
RESPONSIBILITY

SHAPING A SUSTAINABLE FUTURE TODAY



Globally, stakeholders increasingly see sustainability and CSR as essential aspects of business strategy and practice. As a responsible property developer, cement producer and construction company in the Mainland and Hong Kong, SOCAM well recognises its obligation to make meaningful contributions on the road to achieving a sustainable future.

With these visions, SOCAM has consistently been applying insights to its business operations wherever possible, and has the well-being of future generations in mind in both macro and micro business decisions.

Creating a self-sustainable lifestyle – PLANNED LOW CARBON PARK IN DALIAN TIANDI

Set to be a vibrant hub for the knowledge community, Dalian Tiandi is equipped with green and eco-friendly features to protect the environment.

The “Low Carbon Park”, details of which were outlined in 2009, for example, well demonstrates the concept of self-sustainable living. Located in the D27 site of central Dalian Tiandi, this Park, like many other buildings and infrastructure of the project, comes with advanced eco-friendly facilities to minimise carbon emissions generated within the area.

It will make optimum use of renewable energy, water resources and disposed materials to achieve self-sustainability. Renewable energy sources like wind, thermal and solar power will be fully utilised, while green-roofs of buildings will substantially reduce energy consumption. Rain water in the site is collected systematically for irrigation purposes, and organic toilets in the Park will turn recycle waste into fertilisers for plants. Meanwhile, excavated rocks from the site will be used as building and landscaping materials. Surrounding groves of trees will also contribute to carbon emission reduction.

“The Park will serve as a landmark of self-sustainable living and greener future. It aims to inspire and educate the general public on ways to reduce one’s impact on environment and live in harmony with nature. Dalian Tiandi will come with many more carefully designed features to meet the future’s needs for environmentally friendly living, and the project is set to become a pioneering green community that will inspire generations to come,” said Mr. George Yiu, Executive Director of Dalian Tiandi.



The planned Low Carbon Park in Dalian Tiandi



A blueprint of the Low Carbon Park



The Park will make optimum use of renewable energy sources



LSOC cement plants adopt cleaner and less energy-consuming production methods



LSOC pioneers quarry rehabilitation

Protecting the environment – LEADING SUSTAINABLE CEMENT PRODUCTION IN CHINA

Aiming to promote environmentally friendly cement production in China, Lafarge Shui On Cement (LSOC) co-organised with the China Cement Association the "China Top Cement Enterprises CEO Roundtable" in June 2009, during which major issues like sustainable development of China's cement industry were discussed. The "Sustainable Development Declaration of China Top Cement Enterprises" was signed by all 15 participating top national cement enterprises at the meeting.

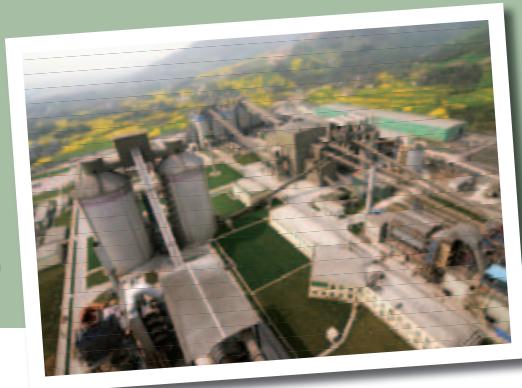
LSOC pioneers emissions reduction, quarry rehabilitation and the development of alternative fuels. In 2009, LSOC launched a soil remediation project which utilises cement kilns to process industrially polluted soil. With a total investment of RMB10 million, the initiative will make its debut in 2010.

In 2009, the sludge usage project at the Nanshan Plant has been in operation for over a year and recorded usage of 30,000 tonnes of sludge a year. This project not only saves land resources and precludes the need for investment in incineration, but also reduces coal consumption, dioxin pollution and CO₂ emission.

LSOC makes sure its cement production is environmentally friendly

Abiding by the Lafarge Group's "Sustainability Ambitions 2012" launched worldwide, LSOC not only complies with the guidelines of the Chinese government but also works with international organisations such as the World Wide Fund for Nature to preserve resources, limit waste and protect biodiversity at quarry sites. LSOC aims at having 85% of its quarries taking on rehabilitation plans by 2010.

"For responsible corporate citizens, sustainable development will inevitably bring about new and increasingly complicated challenges. LSOC will meet and overcome these challenges in an innovative, systematic, pragmatic and transparent manner. We are committed to being an industry leader in sustainable development," said Mr. Sang Kang, Chief Executive Officer of LSOC.





Vertical green panels add greenery to public housing estates



Green claddings in experiments during a research programme



Vertical green panels based on designs contributed by students

Pushing green innovation – BRINGING VERTICAL GREENERY TO THE MASS PUBLIC

SOCAM's green credentials were recognised when in 2009 Shui On Building Contractors became the first construction company to receive the Gold Award of the Hong Kong Awards for Environmental Excellence – Sectoral Awards.

When engineers of the public housing project at Eastern Harbour Crossing Site Phase 4 were faced with the challenge of adding greenery to the housing estate, they took an innovative approach and conducted a vertical greenery research exercise with the Department of Biology of the Chinese University of Hong Kong and the Hong Kong Housing Authority (HKHA) between 2007 and 2008. Funding was provided by the HKHA.

The outcome is a vertical green panel that is light in weight, which minimises burden to the infrastructure. The product is highly flexible and can be installed horizontally, inclined or vertically to suit different needs. It is also easy to maintain with a recycled water irrigation system. Test results show that the product, when installed, reduces indoor temperature by 1.5 degrees Celsius and outside wall surface temperature by 16 degrees Celsius.

Five vertical walls clad with green panels made their debut in Yau Lai Estate, a public housing estate in Hong Kong, in the second half of 2009, adorning feature walls and façades of a lift tower.

"We developed the vertical green panel conferring both aesthetic and environmental benefits to suit the needs of high-density cities like Hong Kong. We will apply this feature to more projects and strive to come up with new green ideas," said Mr. Stephen Lee, Executive Director of Shui On Building Contractors.

CARING FOR THE COMMUNITY

Committed to giving back to the society of which it is an integral part, the Group has engaged in helping the less privileged for many years.



Spreading the “We Care” culture

In 2009, the Group took its community services to the next level by spreading the “We Care” culture. We set up branches of the Shui On Seagull Club – the community service club run by employees – in all its Mainland cities, and appointed 24 ambassadors across the network to coordinate CSR activities locally.

With a strong belief that small changes can make big differences, SOCAM encourages its staff to initiate, organise and execute their own volunteer services in their cities of operation, as they are in the best position to address the genuine local societal needs. During the year, the Group launched a community service leave policy to encourage its employees to flexibly volunteer their time and enthusiasm to supporting local causes.

Major activities of the Seagull Club in Hong Kong included an Annual Charity Walk in support of The Spastic Association of Hong Kong, home visits at festivals to single homes for the elderly, organising and attending picnics for families with mentally handicapped children, in-office themes to raise money for the Community Chest of Hong Kong and blood donation drives.

A wide range of community services was initiated by staff in Beijing, Chengdu, Chongqing, Dalian, Guangzhou, Qingdao and Shenyang offices throughout the year, including school visits in rural and earthquake-stricken areas to make both monetary and in-kind donations, and to instigate health promotion and educational programmes.

Fueling the rehabilitation of Sichuan Earthquake

Assisting the post-earthquake rehabilitation work in Sichuan and nearby regions remains the focus of LSOC as the joint venture is deeply rooted in the area. In 2009, LSOC donated:

- 1,000 tonnes of cement, valued at around RMB500,000, for the construction of buildings in Sichuan where many homes were destroyed in the earthquake.
- RMB100,000 to Zhixi Village, Guizhou for the reconstruction of roads.
- RMB280,000 to the government of Tongchang Town, Jinping County and Honghe Autonomous Prefecture in Yunnan for the reconstruction of main roads.

Scholarships and Training Opportunities

The Group invests in the coming generation and gives its utmost when it comes to providing training opportunities.

- We created a vocational training and work experience programme in partnership with universities and tertiary institutions in Hong Kong, to help students build their self-esteem while they develop professionally.
- We continued offering a scholarship for outstanding students in the Open University of Hong Kong.
- We took part in the Hong Kong Construction Association Education Assistance Fund 2009 and provided sponsorship for an outstanding student's matriculation.



As each year passes, we are dedicated to refining and expanding our CSR programmes across all locations and throughout the Group's operations. Initiatives and project ideas continue to be generated from all parts of the SOCAM workforce, enabling the Group to make contributions to our society, and ensure best practices are adopted in all aspects of environment and community care. We shall continue to ensure that SOCAM is a rewarding and motivating place of work for our valued employees.



CARING FOR OUR PEOPLE

Human resources are our most valuable asset. In 2009, the Group introduced more initiatives to build a harmonious workplace and increase job satisfaction.

Enhancing communications

A company-wide Employee Opinion Survey was conducted in March 2009, involving over 1,200 staff in Mainland, Hong Kong and Macau offices, seeking opinions on several topics including communications between management and staff, work environment as well as quality of work life. Responses received provided useful information for us to determine our next steps in relation to optimising employee engagement.

The Group revamped the Intranet in July 2009 in response to employee feedback. This new online feature adds to the current quarterly newsletters to serve as a channel for better interaction with all employees.

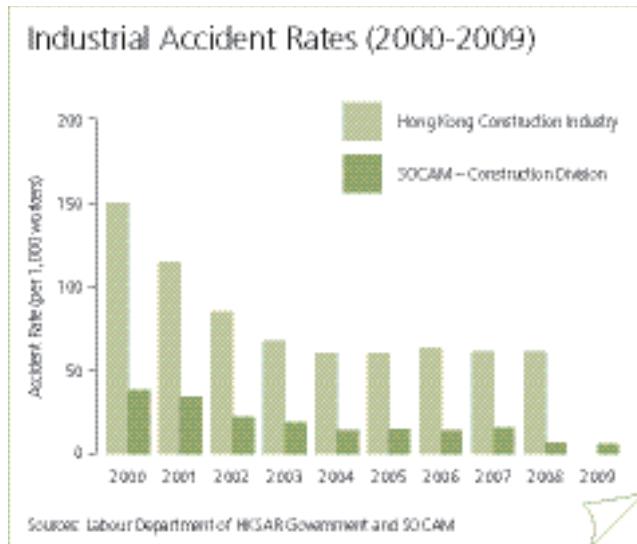


CORPORATE SOCIAL RESPONSIBILITY

Safety – a top priority

At SOCAM, we have always committed to providing a safe and healthy work environment. In 2009, the Group achieved the following targets:

- The construction division achieved a low accident rate of 5.23 cases per 1,000 workers in 2009, a figure significantly lower than the company's target of 7 cases per 1,000 workers per year and also marking the second consecutive year of having a single-digit accident rate.



- The annual Safety, Health and Environment Target Seminar and safety management training programmes were held during the year to share ways to further strengthen occupational health and safety measures.
- The Group issues a quarterly Safety Bulletin to update all construction staff and subcontractors on safety and health information.

Creating a better place to work

The Group rolled out a number of programmes to promote a healthy lifestyle during the year:

- Engages external organisations to provide employee assistance programmes and stress reduction workshops to assist our employees to prevent or manage stress.
- Leisure and recreational activities such as Chinese calligraphy classes, staff outings, and morning exercise sessions are held regularly in all our work locations.
- Monthly birthday parties are held to make our employees feel like family.
- A series of topical workshops or seminars on a wide range of work-related subjects for personal learning and growth were organised.

Promoting career development

The Group's established and structured career development programmes have proved successful as many previous trainees now excel in their respective sectors and hold key positions in the Group. In 2009, SOCAM continued to offer the following carefully designed programmes:

- Graduate Engineer Programme for construction engineering graduates.
- Management Trainee Programme for general disciplines.
- Health, Safety & Environment Trainee Programme to introduce the latest thinking on each subject.
- Safety Officers and Apprentice Scheme for technical institute graduates in various disciplines.

Intakes of these 3- to 4-year programmes, who come from both the Chinese Mainland and Hong Kong, are provided with on-the-job training opportunities supplemented with a comprehensive training curriculum to ensure that training and development objectives are met.

CARING FOR OUR ENVIRONMENT

The Group adopts green initiatives at all stages of its operations and is committed to promoting green living to staff and the community.

Environmental protection in daily practice

- Our construction arm abides by green construction principles and adopts stringent standards to minimise the impact of our works on the local environment.
- At every site, we use dust monitoring equipment to measure the level of respirable suspended particulates regularly to closely monitor dust emission level from our construction activities. Sound level meters are used to monitor noise emission regularly. Energy consumption is constantly recorded and monitored in order to identify key areas for energy conservation.
- The Group actively engages in raising employee awareness of environmental protection, and conducts a variety of campaigns to promote a green lifestyle, including the reinforcement of a green living checklist, carbon emissions reduction campaign and a green office campaign.
- The Group also conducts green audits for all its project offices in the Mainland, identifying targets and areas for improvement.
- In the Hong Kong headquarters, we replaced all T8 fluorescent tubes by T5 fluorescent tubes, saving 94,000 watts of electricity and reducing carbon emissions by 116 tonnes each year.
- We promote the recycling and proper disposal of materials such as toner cartridges, plastic bottles and papers, and created a platform in the Intranet for staff to find buyers for used items.
- We organised an Environmental Campaign Committee site visit in April for various secondary schools to better understand the environmentally friendly features of our award-winning projects.
- A Community Green Cladding Research Programme and a design competition were held in Hong Kong jointly with primary and secondary schools to spread the green message.



CORPORATE SOCIAL RESPONSIBILITY

Environmental Certification

The Group's property and construction projects are designed to achieve LEED (Leadership in Energy and Environmental Design) or BEAM (Building Environmental Assessment Method) certification, both of which are internationally recognised standards in environmentally responsible buildings.

Projects	Target Green Building Certification (e.g. LEED or BEAM)	Features
Shenyang Project Phase I	Silver Level of LEED-CS (Core & Shell) Certification for commercial portion – pre-certification approved	<ul style="list-style-type: none"> • High performance Low-E Glass • 20% reduction (average) in Lighting Power Density (LPD) compared with American Society of Heating, Refrigerating and Air-conditioning Engineers (ASHRAE) Standard • CO₂ Sensor for demand ventilation control • Variable Speed Drive (VSD) chiller • Heat recovery system • Photocell for automatic control of indoor lighting • Occupancy sensor to control the "On/Off" of the M&E system and equipment • Air tightness achieving level 5 of National Code • Higher efficiency M&E equipment for achieving relevant ASHRAE Standard • Low infiltration rate compared with ASHRAE Standard
Chengdu Central Point	Silver Level of LEED – CS (Core & Shell) certification – pending pre-certification approval	<ul style="list-style-type: none"> • 14% energy cost saving of proposed building performance rating compared with the LEED baseline building performance • Double Low-E Glass • VSD chiller • Air-side heat recovery system • Photocell for automatic control of indoor lighting • Occupancy sensor to control the "On/Off" of the M&E system and equipment • 35% potable water reduction by using water efficient water fixture compared with the LEED baseline
Chengdu Orient Home	Target to achieve Silver Level of LEED-CS (Core & Shell) Certification for commercial portion	<ul style="list-style-type: none"> • Refrigerant with low Ozone Depletion Potential (ODP) and Global Warming Potential (GWP) • High performance chiller with high Coefficient of Performance (COP) & Non-standard Part-Load Value (NPLV) • VSD pump • VSD fan • High efficient M&E equipment • High efficient lighting fitting • Building Management System (BMS) control • Water efficient water fixture
Guangzhou Chuangyi Centre	Target to achieve Silver Level of LEED-CS (Core & Shell) Certification for club house	<ul style="list-style-type: none"> • High performance Low-E glass with 15% reduction (average) in LPD compared with ASHRAE Standard • High performance air conditioning system having high COP • Air tightness achieving level 5 of National Code • Low infiltration rate compared with ASHRAE Standard • Photocell for automatic control of indoor lighting
Hong Kong Headquarters Building of Customs and Excise Department	Target to achieve the highest "Platinum Grade" under the "Building Environmental Assessment Method" of HK-BEAM Society	<ul style="list-style-type: none"> • High performance Low-E glass • Grey water recycling • Renewable energy with photovoltaic panels on roof • Energy saving T5 fluorescent tubes • Indoor air quality achieving 'Excellence' class • Dual-flush water cistern • Maximise adoption of vertical greening and green roof • Building layout to match natural ventilation • Maximise usage of natural lighting • Use low noise jacked pile for foundation • Innovative vertical green claddings • Extensive use of precast elements • Site office green roof • Twin water tank • Micro-climate analysis • Sun shading study • Construction of recycle park • Eco-tour provided to students of neighbouring schools • Environmental monitoring and auditing during construction stage • Waste sorting and recycling during construction stage
Tung Chung Municipal Building		
Eastern Harbour Crossing Site Phase 4		
The Rehabilitation Block at Tuen Mun Hospital		

CORPORATE GOVERNANCE REPORT



The Board of Directors of the Company (the "Board") is pleased to present the Corporate Governance Report of the Company for the year ended 31 December 2009.

COMMITMENT TO CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance, which is essential for sustainable development and growth of the Group, enhancement of corporate performance and accountability as well as shareholders' value.

The Company has applied the Principles and complied with all the Code Provisions of the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2009 except for certain deviations as specified with considered reasons below.

THE BOARD

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company, and the Directors are collectively responsible for promoting the success of the Company by directing and supervising its affairs and overseeing the achievement of the plans to enhance shareholders' value. All Directors are expected to take decisions objectively in the interests of the Company.

The Board is responsible for making decisions on all major aspects of the Company's affairs, including the approval and monitoring of key policy matters, overall strategies, business plans and annual budgets, internal control and risk management systems, material transactions (including, in particular, those which may involve conflicts of interest), major capital expenditure, appointment of Directors and other significant financial and operational matters.

All operational decisions are delegated to the Executive Directors led by the Chief Executive Officer. The day-to-day management, administration and operation of the Company are delegated to the management. The delegated functions and work tasks are periodically reviewed. The Board does and will give clear directions to the management as to their powers and circumstances where management should report back. Approval has to be obtained from the Board prior to any decision being made or any commitments being entered into on behalf of the Company that are outside the limits of the operational authority delegated by the Board.

CORPORATE GOVERNANCE REPORT

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. When needed and upon making request to the Board, the Non-executive Directors may obtain independent professional advice at the Company's expense in carrying out their functions. Indemnities and directors' insurance have been provided to the Directors in connection with the performance of their responsibilities.

The management has an obligation to supply to the Board and its committees adequate, complete and reliable information in a timely manner to enable them to make informed decisions. The Board and each Director have separate and independent access to the management.

In 2008, the Company engaged an external consultant to carry out an evaluation of the performance of the Board as a whole and of individual Directors. The exercise concluded with a detailed report of findings and

recommendations as well as an open-exchange session where Executive and Non-executive Directors expressed and aligned their mutual expectations of roles and working relationships, so as to enhance the functioning of the Board. The Company promptly followed up on the recommendations with an action plan whereby various actions have been enforced in 2008 and 2009, such as formulating and adopting a board charter and a corporate social responsibility statement, establishing a nomination committee, undertaking a skills audit and arranging for strategy development sessions and field visits. In view of the recent changes in the Board composition, a further Board evaluation may be considered after the newly appointed Directors have become more familiar with the operations of the Company and the Board as a whole.

With the adoption of the board charter, the relevant roles of the Board and management and their relationships are clearly delineated and the functions reserved to the Board and those delegated to management have been formalised in writing.

Composition

During the year, the composition of the Board was as follows:

Executive Directors:	
Mr. Lo Hong Sui, Vincent	Chairman of the Board and the Nomination Committee, and member of the Executive and Remuneration Committees
Mr. Choi Yuk Keung, Lawrence	Vice Chairman of the Board and chairman of the Executive Committee
Mr. Wong Yuet Leung, Frankie	Chief Executive Officer, member of the Nomination and Executive Committees, and chairman of the Finance Committee
Mr. Wong Kun To, Philip (appointed on 1 July 2009)	member of the Executive and Finance Committees
Mr. Wong Fook Lam, Raymond (appointed on 1 July 2009)	Chief Financial Officer and member of the Executive and Finance Committees
Ms. Lau Jeny (resigned on 1 June 2009)	Chief Financial Officer and member of the Executive Committee
Mrs. Lowe Hoh Wai Wan, Vivien (retired on 1 December 2009)	member of the Executive Committee
Non-executive Director:	
Professor Michael Enright	member of the Audit, Remuneration, Nomination and Finance Committees
Independent Non-executive Directors:	
Mr. Anthony Griffiths	chairman of the Audit and Remuneration Committees, and member of the Nomination Committee
Mr. Gerrit de Nys	member of the Audit, Remuneration, Nomination and Finance Committees
Ms. Li Hoi Lun, Helen	member of the Audit, Remuneration and Nomination Committees

Subsequent to the financial year end, Mr. David Eldon, Mr. Chan Kay Cheung and Mr. Tsang Kwok Tai, Moses have been appointed as Independent Non-executive Directors of the Company with effect from 1 January 2010.

Biographical details of the Directors are shown on pages 73 to 76. None of the members of the Board is related to one another.

The Company has throughout the year met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, accounting or related financial management expertise. The Company has received written annual confirmation from each Independent Non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all of its Independent Non-executive Directors to be independent of management and free of any relationship that could materially interfere with the exercise of their independent judgment.

The Non-executive Directors advise the Company on strategic and critical matters. The Board considers that each Non-executive Director brings his/her own senior level of experience and expertise to the functioning of the Board. The Board seeks the development of effective working relationships between the Executive and Non-executive Directors to improve the quality of decision-making by the Board without constraining the independent views of the Non-executive Directors. To this end, regular informal meetings are held between the Executive Directors and Non-executive Directors.

Distinct Roles of Chairman and Chief Executive Officer

The distinct roles of the Chairman and the Chief Executive Officer are acknowledged. To ensure a balance of power and authority, the positions of the Chairman of the Board and Chief Executive Officer were held by Mr. Lo Hong Sui, Vincent and Mr. Wong Yuet Leung, Frankie respectively during the year. Their respective responsibilities are clearly defined in the board charter of the Company.

The Chairman is responsible for leading the Board in setting the overall strategy and making major development decisions of the Group and monitoring their implementation, to ensure value creation for shareholders. He takes part in cultivating and maintaining good relationships with strategic associates of the Group and

creating a favourable environment for the development of the Group's businesses.

The Chief Executive Officer is responsible for leading the operations of the Group's businesses to achieve their business and financial targets, proposing strategies to the Board and ensuring the effective implementation of the strategies and policies adopted by the Board, including the building of a strong corporate culture within the Group.

Appointment, Re-election and Removal of Directors

The procedures and processes of appointment, re-election and removal of Directors are laid down in the Bye-laws of the Company. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession of Directors and assessing the independence of Independent Non-executive Directors.

The Board, through the Nomination Committee, reviews from time to time its own structure, size and composition to ensure that it has a balance of appropriate expertise, skills and experience for the needs of the business of the Company. Where vacancies on the Board exist, the Nomination Committee will carry out a selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations, and make recommendations to the Board on the selection of candidates for directorship. External recruitment agencies may be engaged to assist in the recruitment and selection process when necessary.

Following the Board evaluation conducted in 2008 and with the assistance of the external consultant, a skills audit has been conducted to evaluate the appropriate expertise and experience that the Board already possesses amongst its members and those that are needed to meet the needs of the business of the Company. The skills audit has helped identify the gap in competency and skills required by the Board during the recruitment process for Directors. This serves as a basis for succession planning processes for the Board.

Code Provision A.4.1 of the CG Code stipulates that Non-executive Directors should be appointed for a specific term, subject to re-election. The Non-executive Directors of the Company appointed prior to 2008 do not have a specific term of appointment, though they are subject

CORPORATE GOVERNANCE REPORT

to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company. Since 2008, arrangements have been put in place for the appointment of new Non-executive Directors for a specific term in compliance with Code Provision A.4.1 of the CG Code. A service contract has been entered into with each of the newly appointed Non-executive Directors upon his or her appointment, pursuant to which such Director has been appointed for a term of 3 years, subject to the provisions on Directors' retirement as set out in the Bye-laws of the Company. Arrangements for the execution of a similar service contract will be made with each of the other Non-executive Directors who retire and are re-elected at the forthcoming annual general meeting (the "AGM") of the Company to be held on 28 May 2010.

In accordance with the Bye-laws of the Company, all the Directors appointed to fill casual vacancies shall be subject to re-election by shareholders at the first general meeting of the Company after their appointment. Any Director appointed as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall be eligible for re-election at that meeting. All Directors shall be subject to retirement by rotation once every 3 years at the annual general meetings of the Company. Accordingly, Mr. Wong Kun To, Philip, Mr. Wong Fook Lam, Raymond, Mr. David Eldon, Mr. Chan Kay Cheung and Mr. Tsang Kwok Tai, Moses, being the Directors newly appointed by the Board to fill casual vacancies or as additional Directors, shall retire at the AGM. In addition, Professor Michael Enright, Mr. Anthony Griffiths and Mr. Gerrit de Nys shall also retire by rotation at the AGM. Except for Professor Michael Enright and Mr. Anthony Griffiths who do not stand for re-election after serving the Company as Non-executive Directors for over 9 years, all the said Directors, being eligible, will offer themselves for re-election at the AGM.

Board Committees

The Board has set up six Board Committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Executive Committee, the Finance Committee and the Investment Committee, to oversee particular aspects of the Company's affairs.

The Finance Committee was newly established during the year to act as the governing body to set parameters and provide guidance on the sound financial management of the Group as a whole. In addition, the Board has also approved the formation of an Investment Committee during the year to assess investment and disposal recommendations on property projects of the Group with the composition of this committee determined at next Board meeting held in March 2010 following

the appointment of new independent Non-executive Directors.

Upon recommendation of the Nomination Committee, the Board has resolved at its Board meeting on 30 March 2010 to re-structure the composition of the Board Committees with effect from the conclusion of the AGM on 28 May 2010, details of which are set out on pages 59 to 61.

Each of these Committees has been established with written terms of reference, which were approved by the Board, setting out the Committee's major duties. These terms of reference are available to shareholders upon request and can also be found on the Company's website.

Code Provision B.1.3 of the CG Code provides that the terms of reference of the Remuneration Committee should include, as a minimum, the specific delegated responsibility to determine the detailed remuneration packages of all Executive Directors and senior management. In 2008, the Remuneration Committee reviewed its functions and considered that the delegated responsibility to determine the specific remuneration packages of senior management should be vested in the Executive Directors who have a better understanding of the level of expertise, experience and performance expected of the senior management in the daily business operations. The Remuneration Committee would continue to be primarily responsible for the determination and review of the remuneration packages of the Executive Directors. After due consideration, the Board resolved to amend the terms of reference of the Remuneration Committee in 2008 to exclude from its scope of duties the delegated responsibility to determine the specific remuneration packages of senior management, which deviates from Code Provision B.1.3. Notwithstanding such deviation, the Remuneration Committee is still responsible for reviewing, approving and making recommendations to the Board on the guiding principles applicable to the determination of the remuneration and benefits of senior management.

Having reviewed the practice and procedures of remuneration committees in other jurisdictions, the Remuneration Committee decided that it would be better practice for the Non-executive Directors to cease involvement in recommending their own remuneration. Such recommendations are made to the Board by the Chairman of the Company, taking the advice of external professionals as appropriate. This practice has been formally adopted and, at the relevant Board meetings, the Non-executive Directors abstain from voting in respect of their own remuneration. The proposed amendment to the terms of reference of the Remuneration Committee in this respect was approved by the Board during the year.

The Board Committees are provided with sufficient resources to discharge their duties and, upon request, are able to seek independent professional advice at the Company's expense.

	Major roles and functions	Composition	Frequency of meetings
Audit Committee	<ul style="list-style-type: none"> • To review the financial statements of the Group • To review the accounting policies adopted by the Group and their implementation • To review the effectiveness of the risk management and internal control systems • To oversee the engagement, services provided and remuneration of the external auditor and its independence • To review and monitor the effectiveness of the internal audit function 	<p>At 31 December 2009</p> <p>Independent Non-executive Directors Mr. Anthony Griffiths (<i>Chairman</i>) Mr. Gerrit de Nys Ms. Li Hoi Lun, Helen</p> <p>Non-executive Director Professor Michael Enright</p> <p>From the conclusion of the AGM on 28 May 2010</p> <p>Independent Non-executive Directors Mr. Chan Kay Cheung (<i>Chairman</i>) Mr. Gerrit de Nys Ms. Li Hoi Lun, Helen</p>	At least four times a year
Remuneration Committee	<ul style="list-style-type: none"> • To make recommendation to the Board on the policy and structure for remuneration of Directors and senior management • To determine the specific remuneration packages of all Executive Directors • To review and approve performance-based remuneration with reference to the corporate goals and objectives 	<p>At 31 December 2009</p> <p>Independent Non-executive Directors Mr. Anthony Griffiths (<i>Chairman</i>) Mr. Gerrit de Nys Ms. Li Hoi Lun, Helen</p> <p>Non-executive Director Professor Michael Enright</p> <p>Executive Director Mr. Lo Hong Sui, Vincent</p> <p>From the conclusion of the AGM on 28 May 2010</p> <p>Independent Non-executive Directors Mr. David Eldon (<i>Chairman</i>) Ms. Li Hoi Lun, Helen Mr. Tsang Kwok Tai, Moses</p> <p>Executive Director Mr. Lo Hong Sui, Vincent</p>	At least twice a year

CORPORATE GOVERNANCE REPORT

	Major roles and functions	Composition	Frequency of meetings
Nomination Committee	<ul style="list-style-type: none"> • To review the size and composition of the Board from time to time • To identify, select and make recommendations to the Board on individuals nominated for appointment as directors • To assess the independence of Independent Non-executive Directors • To make recommendations to the Board on any matters relating to the appointment or re-appointment of Directors and succession planning for Directors • To implement and oversee periodic performance evaluation of the Board and its committees 	<p><i>At 31 December 2009</i></p> <p>Executive Directors Mr. Lo Hong Sui, Vincent (<i>Chairman</i>) Mr. Wong Yuet Leung, Frankie</p> <p>Non-executive Director Professor Michael Enright</p> <p>Independent Non-executive Directors Mr. Anthony Griffiths Mr. Gerrit de Nys Ms. Li Hoi Lun, Helen</p> <p><i>From the conclusion of the AGM on 28 May 2010</i></p> <p>Executive Directors Mr. Lo Hong Sui, Vincent (<i>Chairman</i>) Mr. Wong Kun To, Philip</p> <p>Independent Non-executive Directors Mr. Gerrit de Nys Mr. David Eldon Mr. Tsang Kwok Tai, Moses</p>	On an as needed basis
Finance Committee	<ul style="list-style-type: none"> • To set overall financial objectives and strategies for the Group • To adopt a set of financial policies for the Group and oversee its consistent application throughout the Group • To review investment projects/major capital expenditures to be undertaken and advise on the financing viability of the investment projects/major capital expenditures • To monitor cash flow and liquidity of the Group and review cash flow forecast to ensure sustainability 	<p><i>At 31 December 2009</i></p> <p>Executive Directors Mr. Wong Yuet Leung, Frankie (<i>Chairman</i>) Mr. Wong Kun To, Philip Mr. Wong Fook Lam, Raymond</p> <p>Non-executive Director Professor Michael Enright</p> <p>Independent Non-executive Director Mr. Gerrit de Nys</p> <p><i>From the conclusion of the AGM on 28 May 2010</i></p> <p>Executive Directors Mr. Wong Yuet Leung, Frankie (<i>Chairman</i>) Mr. Wong Kun To, Philip Mr. Wong Fook Lam, Raymond</p> <p>Independent Non-executive Directors Mr. Gerrit de Nys Mr. David Eldon Mr. Chan Kay Cheung Mr. Tsang Kwok Tai, Moses</p>	At least four times a year

	Major roles and functions	Composition	Frequency of meetings
Investment Committee	<ul style="list-style-type: none"> • To review preliminary and detailed investment and disposal recommendations on target property projects and projects currently owned by the Group • To make recommendation to the Board as to whether the Group should acquire a property or, as the case may be, dispose of a property and if so, on what terms, on what timing and strategy • To review the overall investment strategy of the Group, make recommendation to the Board on any proposed changes to the investment strategy, and to monitor its implementation 	<p><i>From 30 March 2010</i></p> <p>Executive Directors Mr. Choi Yuk Keung, Lawrence (Chairman) Mr. Wong Kun To, Philip Mr. Wong Fook Lam, Raymond</p> <p>Independent Non-executive Directors Ms. Li Hoi Lun, Helen Mr. Chan Kay Cheung</p>	On an as needed basis
Executive Committee	<ul style="list-style-type: none"> • To monitor the macro business environment and market trends with respect to the current and potential business areas of the Group • To evaluate and set business strategies for ensuring the long-term growth and competitiveness of the core businesses of the Group • To formulate corporate goals and plan and allocate human and financial resources and otherwise, for execution • To monitor the execution of approved strategies and business plans • To review and approve acquisitions and disposals of assets in the ordinary course of business with investment costs/ net book values not exceeding certain thresholds • To review the operating performance and financial position of the Company and its strategic business units on a monthly basis 	<p><i>At 31 December 2009</i></p> <p>Executive Directors Mr. Choi Yuk Keung, Lawrence (Chairman) Mr. Lo Hong Sui, Vincent Mr. Wong Yuet Leung, Frankie Mr. Wong Kun To, Philip Mr. Wong Fook Lam, Raymond</p> <p>Other key executives</p> <p><i>From the conclusion of the AGM on 28 May 2010</i></p> <p>Same as above</p>	Monthly

CORPORATE GOVERNANCE REPORT

The Directors' attendance at the meetings held is set out in the section below. Separate reports prepared by the Remuneration Committee and the Audit Committee, which summarise their work performed during the year, are set out on pages 66 to 70 and 71 to 72 respectively.

Board and Board Committee Meetings

Number of Meetings and Directors' attendance

The Board meets at least four times each year and more frequently as the needs of the business demand. Apart from the Board meetings, the Board has also devoted a separate session to consider and review the Group's strategy and business activities. The attendance of the Directors at the Board meetings during the year is set out in the table below.

Practices and Conduct of Meetings

The annual meeting schedule and the agenda of each meeting are made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meetings. For other Board and Committee meetings, reasonable notice is given.

Board papers together with all relevant information are sent to all Directors at least 3 days before each Board meeting or Committee meeting to provide them with adequate information to enable them to make informed decisions. The Board and each Director also have direct and independent access to the management whenever necessary.

The Company Secretary of the Company is responsible for maintaining minutes of all Board meetings and Committee meetings. Draft minutes are circulated to Directors for comment within a reasonable time after each meeting and the final version, as approved formally by the Board or the relevant Committee, is filed for record purposes. All Directors have access to the minutes of the Board and Committee meetings of the Company.

According to the current Board practice, any material transaction involving a conflict of interest with a substantial shareholder or a Director will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Meeting Attendance

The individual attendance records of each Director at the meetings of the Board and its Committees during the year are set out below:

Name of Directors	Attendance/Number of meetings during the year					
	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Executive Committee meetings	Finance Committee meeting
Mr. Lo Hong Sui, Vincent	5/5	N/A	2/2	3/3	12/12	N/A
Mr. Choi Yuk Keung, Lawrence	5/5	N/A	N/A	N/A	12/12	N/A
Mr. Wong Yuet Leung, Frankie	5/5	N/A	N/A	3/3	12/12	1/1
Mr. Wong Kun To, Philip (appointed on 1 July 2009)	2/2	N/A	N/A	N/A	6/6	1/1
Mr. Wong Fook Lam, Raymond (appointed on 1 July 2009)	2/2	N/A	N/A	N/A	5/6	1/1
Professor Michael Enright	5/5	3/4	2/2	2/2	N/A	1/1
Mr. Anthony Griffiths	5/5	4/4	2/2	3/3	N/A	N/A
Mr. Gerrit de Nys	5/5	4/4	2/2	3/3	N/A	1/1
Ms. Li Hoi Lun, Helen	5/5	4/4	2/2	3/3	N/A	N/A
Ms. Lau Jeny (resigned on 1 June 2009)	2/2	N/A	N/A	N/A	5/5	N/A
Mrs. Lowe Hoh Wai Wan, Vivien (retired on 1 December 2009)	4/4	N/A	N/A	N/A	11/11	N/A

The Chief Financial Officer attends all meetings of the Audit Committee by invitation. Mrs. Lowe Hoh Wai Wan, Vivien attended by invitation all meetings of the Remuneration Committee held prior to her retirement.

Training, Induction and Continuing Development for Directors

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Since 2007, the Board has further enhanced its induction process for all new Directors, including a comprehensive introduction to the strategies and activities of the Group, its history, its principal policies and procedures. This induction is supplemented by visits to selected operational sites to provide a better understanding of the operations of the Group to the new Directors.

Two induction sessions had been arranged for the two Executive Directors appointed in July 2009 and the three Independent Non-executive Directors appointed in January 2010 respectively. Arrangements were made in September 2009 for site visits to the property projects of the Group in Dalian and Shenyang for the new Executive Directors as well as certain Non-executive Directors. Annual site visits will be planned and organised for the Directors in the second half of 2010.

The Chairman has assessed the development needs of the Board as a whole, with a view to building its effectiveness as a team and assisting in the development of individual skills, knowledge and expertise.

Following the Board evaluation conducted in 2008, the Company continues its effort in providing regular updates on the changes in the relevant regulatory requirements applicable to the Group and recommending relevant seminars/conferences and internal briefing sessions to the Directors from time to time. A board strategy session was organised by the Company in September 2009 with participation of senior management to discuss the long-term business and corporate strategy of the Group. Individual Non-executive Directors have also been invited to participate in relevant management conferences to tap their expertise on strategic matters as well as to allow them a better appreciation of the business issues and the management team.

Directors are encouraged to seek continuous professional development and the Company provides support whenever relevant and necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Following specific enquiries by the Company, the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2009.

The Company has also established written guidelines on no less exacting terms than the Model Code for dealings in the Company's securities by relevant employees who are likely to be in possession of unpublished price-sensitive information in relation to the Company or its securities.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITOR'S REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment in respect of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2009.

The following statement, which should be read in conjunction with the independent auditor's report, is made with a view to distinguishing for shareholders how the responsibilities of the Directors differ from those of the auditor in relation to the financial statements.

Annual Report and Financial Statements

The Directors are responsible for the preparation of financial statements, which give a true and fair view of the state of affairs of the Group at the end of the financial year and of the profit or loss for the financial year. The Directors have prepared the financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

Accounting Policies

The Directors consider that in preparing the financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable accounting standards have been followed.

Accounting Records

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the requirements of the Hong Kong Companies Ordinance and the Listing Rules.

Safeguarding Assets

The Board is responsible for safeguarding the assets of the Company and for taking reasonable steps for preventing and detecting fraud and other irregularities.

Going Concern

After making appropriate enquiries and examining major areas which could give rise to significant financial exposures, the Directors are satisfied that no material or significant exposures exist, other than as reflected in this Annual Report. The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The remuneration payable to the external auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2009 amounted to HK\$4.6 million and HK\$4.3 million respectively. The costs incurred for the non-audit services represented professional fees in connection with the review of interim accounts and continuing connected transactions and the reporting of the financial information on China Central Properties Limited and its subsidiaries under the privatisation offer made by the Company.

INTERNAL CONTROL SYSTEMS

The Board has overall responsibility for the maintenance of sound and effective internal control systems within the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures.

The Board has entrusted the Audit Committee with the responsibility to review the internal control systems of the Group, which include financial, operational and compliance controls and risk management functions. A risk management system is in place to ensure the regular identification, evaluation and management of risks faced by the Group. Procedures have been set up for, inter alia, safeguarding assets against unauthorised use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications. Management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The Board has conducted a review of the Company's internal control systems for the year ended 31 December 2009, including financial, operational and compliance controls and risk management functions and assessed the effectiveness of internal control systems by considering the work performed by the Audit Committee, executive management, external consultants and internal auditors.

Internal Audit

The internal audit function, which is fully independent of the daily operations of the Group, is carried out by the Company's Corporate Evaluation Department, the Senior Manager in charge of which reports to the Audit Committee, and at the Audit Committee's instruction, briefs the Chief Executive Officer on the outcome of all internal audit projects. The Chief Executive Officer, with the approval of the Audit Committee, may instruct the Senior Manager in charge of the Corporate Evaluation Department to undertake internal audit activities of an urgent or sensitive nature. All other Directors are informed of all findings. The Department is closely involved in the assessment of the quality of risk management of the Group and during the year reviewed the effectiveness of the formal risk management system as well as the effectiveness of the Group's internal controls. When considered appropriate and with the approval of the Audit Committee, review work is outsourced either to obtain the assistance of specialists or due to the volume of work to be undertaken within a specific period. During the year, a professional agent has been engaged to perform a remote intrusion test on the IT networks of the Company. The Senior Manager in charge of the Corporate Evaluation Department attends all Audit Committee meetings. Four meetings were held by the Audit Committee in 2009 and details of the major areas reviewed are set out in the Audit Committee Report on pages 71 to 72. The Audit Committee regularly reviews the key performance indicators relating to the work of the Corporate Evaluation Department.

Internal Control

The Group has diverse activities for which a high level of autonomy in operational matters has been vested in divisional managers who are also responsible for the development of their divisions. In these circumstances, a well-designed system of internal controls is necessary to safeguard the assets of the Group. The Directors have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. A formal risk management policy has been put in place to ensure the regular identification, evaluation and management of risks faced by the Group. The Chief Financial Officer, as Chief Risk Officer, takes the lead in the effective implementation of the risk management policy by all divisions/business units.

The systems and policies of the Group are designed to help minimise and manage business risks, protect the assets of the Group from loss or impairment, accurately report the performance of the Group and its financial position, and to ensure compliance with relevant legislation, regulations and best practices. This includes taking into consideration social, environmental and ethical matters. The systems provide reasonable assurance against material misstatement or loss and are regularly reviewed by the Board to deal with changing circumstances.

Risk assessment and evaluation are an integral part of the annual planning process. Each business unit is to set its strategic objectives, identify and assess the effectiveness of its system of internal controls to help ensure that risks it faces are mitigated by the controls that have been or will be implemented. Workshops are organised for management staff annually to ensure proper appreciation and implementation of the system and procedure.

The Audit Committee reports to the Board on any material matters that have arisen from the Committee's review of how the risk management and internal control processes have been applied including any major control weakness noted.

COMMUNICATIONS WITH SHAREHOLDERS

The Board places considerable importance on communication with its shareholders. The Chairman, Chief Executive Officer and Chief Financial Officer are closely involved in promoting investor relations. The annual and interim reports are available to all shareholders either in paper form or electronically, which can be accessed via the Company's website.

The Company promotes communications with non-institutional shareholders through public announcements of key developments of the Company as prescribed under the Listing Rules, annual general meeting and other general meetings of the Company. Such general meetings and media conferences are presided over and led by the Chairman supported by the Chief Executive Officer and other Directors. Meetings with financial analysts, brokers and investors are conducted by the Chief Executive Officer, assisted by the Chief Financial Officer. During the year, numerous meetings, investor conferences and road shows were conducted. Policies are in place for the protection and proper disclosure of price-sensitive information that has not already been made public. The Directors adhere strictly to the statutory guideline in their responsibilities of keeping information confidential.

The notice of annual general meeting is circulated to all shareholders in accordance with the requirements of the Listing Rules and the Bye-laws of the Company. All shareholders are entitled to attend the annual general meeting and all other general meetings of the Company at which they have the opportunity to put questions to the Board. It is a standard practice to have the Non-executive Directors available to answer questions relating to their roles, tenure, and the Board Committees. The results of voting by poll are announced at the meetings and published on the websites of the Stock Exchange and the Company after the meetings.

REMUNERATION COMMITTEE REPORT

The Remuneration Committee of the Company is pleased to present its report for the year ended 31 December 2009.

COMPOSITION

The composition of the Remuneration Committee is as follows:

Mr. Anthony Griffiths (*Chairman of the Committee*)
Mr. Lo Hong Sui, Vincent
Professor Michael Enright
Mr. Gerrit de Nys
Ms. Li Hoi Lun, Helen

With the exception of Mr. Lo Hong Sui, Vincent who is the Chairman of the Board and Professor Michael Enright who is a Non-executive Director, the Committee members are Independent Non-executive Directors of the Company.

MEETING ATTENDANCE

The Remuneration Committee met two times during the year under review and the attendance of the individual members is set out as follows:

Name of Committee members	Attendance/ Number of meetings
Mr. Anthony Griffiths	2/2
Mr. Lo Hong Sui, Vincent	2/2
Professor Michael Enright	2/2
Mr. Gerrit de Nys	2/2
Ms. Li Hoi Lun, Helen	2/2

Mr. Wong Yuet Leung, Frankie, the Chief Executive Officer, and Mrs. Lowe Hoh Wai Wan, Vivien, the then Executive Director responsible for human resources, attended meetings of the Committee by invitation. The Company Secretary acts as the secretary to the Remuneration Committee.

ROLE AND DUTIES

The Remuneration Committee has specific terms of reference, which are available on the Company's website.

The Remuneration Committee is tasked to:

- make recommendations to the Board on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

- determine the specific remuneration packages of all Executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, taking into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;
- review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- review and approve the compensation payable to Executive Directors in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and is otherwise fair and not excessive for the Company; and
- review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

Code Provision B.1.3 of the Code on Corporate Governance Practices provides that the terms of reference of the Remuneration Committee should include, as a minimum, the specific delegated responsibility to determine the detailed remuneration packages of all Executive Directors and senior management. In 2008, the Remuneration Committee reviewed its functions and considered that the delegated responsibility to determine the specific remuneration packages of senior management should be vested in the Executive Directors who have a better understanding of the level of expertise, experience and performance expected of the senior management in the daily business operations. The Remuneration Committee would continue to be primarily responsible for the determination and review of the remuneration packages of the Executive Directors. After due consideration, the Board resolved to amend the terms of reference of the Remuneration Committee in 2008 to exclude from its scope of duties the delegated responsibility to determine the specific remuneration packages of senior management, which deviates from Code Provision B.1.3. Notwithstanding such deviation, the Remuneration Committee is still responsible for reviewing, approving and making recommendations to the Board on the guiding principles applicable to the determination of the remuneration and benefits of senior management.

Having reviewed the practice and procedures of remuneration committees in other jurisdictions, the Remuneration Committee decided that it would be better practice for the Non-executive Directors to cease involvement in recommending their own remuneration. Such recommendations are made to the Board by the Chairman of the Company, taking the advice of external professionals as appropriate. This practice has been formally adopted and, at the relevant Board meetings, the Non-executive Directors abstain from voting in respect of their own remuneration. The proposed amendment to the terms of reference of the Remuneration Committee in this respect was approved by the Board during the year.

REMUNERATION POLICY

Through its remuneration policy, the Company aims to attract, motivate and retain competent, high calibre executives while ensuring that the remuneration is aligned with the Company's goals, objectives and performance.

Taking into consideration the findings of an independent survey on directorate pay of listed companies in Hong Kong published annually, the Remuneration Committee reviewed the composition of remuneration for the Executive Directors of the Company and decided that:

- the existing remuneration structure is appropriate and competitive;
- the balance between short-term and long-term elements of remuneration is important and should be retained;
- salary levels will continue to be reviewed regularly against those in companies of a similar size or nature listed on The Stock Exchange of Hong Kong Limited;
- emphasis will be given to corporate and individual performance, taking into account the different responsibilities of each Executive Director, which will be rewarded by bonus payable for achievement of stretching targets and the grant of share options; and
- long-term incentive awards are important.

The Committee considers long-term incentive awards to be important in motivating the Executive Directors and the total shareholders' return ("TSR") has been used as an important measurement criterion for such awards since the inception of the long-term incentive awards scheme. In view of the volatility of share prices affected by market sentiment and the global financial crisis, the Committee observed that share options using TSR as a performance measurement criterion were no longer serving as an effective way to motivate and reward the Executive Directors. Therefore, during the year, the Committee reviewed the performance measurement for long-term incentive awards and, after consideration, recommended to the Board a new set of performance measurement criteria to be used for future grants of share options to the Executive Directors under the long-term incentive scheme. These measurement criteria comprise a range of specific performance criteria/targets that the Executive Directors are required to achieve in a 3-year performance period for creating shareholder value, which include return on equity, free cash flow and risk management, achievement of strategic goals, financial and operational performance targets. Such new performance measurement criteria were approved by the Board at its meeting in March 2010 and will be applied to future grants of share options.

No individual Director is involved in deciding his or her own remuneration.

The Company's policy is to encourage the participation of Executive Directors and employees in the equity of the Company. While it is highly desirable that Directors of the Company should hold shares in the Company, Non-executive Directors are encouraged not to do so in order to ensure their independence.

REMUNERATION STRUCTURE

The remuneration of the Executive Directors and senior management comprises salary and benefits, performance bonuses, pension scheme contributions, share option grants and long-term incentives. In determining remuneration appropriate to the Chief Executive Officer and the Executive Directors, developments in executive remuneration in Hong Kong, the Chinese Mainland and other parts of the world are reviewed and monitored from time to time with the assistance of remuneration consultants employed by the Remuneration Committee.

REMUNERATION COMMITTEE REPORT

On the recommendation of the Committee, the Board had approved the salary and bonus components of the remuneration of Executive Directors to be normally related to their aggregate total remuneration, as follows:

Remuneration Components	Chief Executive Officer	Executive Directors
Salary and other benefits	Half	Five Eighths
Bonus for achievement of targets	Half	Three Eighths

In cases of exceptional performance only, the bonus element could be increased relative to performance delivered by up to twice the amount that would be given normally.

The bonus for the Chief Executive Officer is based 75% on company performance and 25% on personal performance; for the Executive Directors the two elements are each 50%.

The remuneration of Non-executive Directors is decided by the Board on recommendation by the Chairman of the Company.

WORK DURING THE YEAR

During the year, the Remuneration Committee:

- reviewed the pay of the Executive Directors, taking into account the report of the remuneration consultants on the analysis of directors' remuneration in comparable Hong Kong listed companies;
- reviewed and determined the amount of bonuses awarded to the Executive Directors based on personal and company performance;
- recommended the award of share options to the Executive Directors under the long-term incentive scheme;
- reviewed the proposals for the annual award of share options to Executive Directors and management staff based on their performance and the policy of encouraging their participation in the equity of the Company;
- reviewed the preliminary vesting recommendations for share options granted to certain key executives;
- reviewed and considered the proposal on grant of new share options in exchange for previous share options granted to certain key executives which had ceased to be motivational due to their having "gone underwater", taking into account the advice of a remuneration consultant;
- reviewed and discussed the new performance measurement criteria for the long-term incentive awards to Executive Directors;
- determined the termination remuneration of Ms. Lau Jeny on her resignation as an Executive Director;
- determined the vesting of share options granted to Mrs. Lowe Hoh Wai Wan, Vivien, Executive Director, upon her retirement and the amount of bonus awarded to her;
- reviewed and considered the proposals for modification of the non-competition condition imposed on the exercise of share options by employees retiring from the Group post their retirement and relaxation of the restriction on the timing of exercise of share options by employees; and
- reviewed the terms of reference of the Committee and proposed amendments for Board approval.

REMUNERATION OF DIRECTORS FOR THE YEAR

The Directors received the following remuneration for the year:

Name of Directors	Fees HK\$'000	Salary and other benefits (Note 1)	Performance bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	Value of share options granted (Note 2) HK\$'000	For the year ended 31 December 2009 Total HK\$'000	For the year ended 31 December 2008 Total HK\$'000
		HK\$'000	HK\$'000	HK\$'000		HK\$'000	HK\$'000
Chairman							
Mr. Lo Hong Sui, Vincent	10	–	–	–	–	10	10
Vice Chairman							
Mr. Choi Yuk Keung, Lawrence	10	3,441	1,744	61	3,213	8,469	7,966
Executive Directors							
Mr. Wong Yuet Leung, Frankie	10	5,549	4,200	27	7,540	17,326	19,042
Mr. Wong Kun To, Philip (appointed on 1 July 2009)	5	1,882	–	81	1,944	3,912	–
Mr. Wong Fook Lam, Raymond (appointed on 1 July 2009)	5	1,584	–	27	535	2,151	–
Ms. Lau Jeny (resigned on 1 June 2009)	4	1,452	2,165	58	(657)	3,022	4,197
Mrs. Lowe Hoh Wai Wan, Vivien (retired on 1 December 2009)	9	2,118	2,635	32	(590)	4,204	5,559
Non-executive Director							
Professor Michael Enright	350	–	–	–	–	350	350
Independent Non-executive Directors							
Mr. Anthony Griffiths	440	–	–	–	–	440	440
Mr. Gerrit de Nys	350	–	–	–	–	350	350
Ms. Li Hoi Lun, Helen	350	–	–	–	–	350	120
TOTAL	1,543	16,026	10,744	286	11,985	40,584	38,034

Notes:

- (1) With effect from 1 January 2010, the annual salaries and allowances of Mr. Choi Yuk Keung, Lawrence, Mr. Wong Yuet Leung, Frankie, Mr. Wong Kun To, Philip and Mr. Wong Fook Lam, Raymond have been increased to HK\$3,508,800, HK\$5,659,200, HK\$3,870,000 and HK\$3,252,000 respectively. The annual salaries and allowances of Mr. Wong Kun To, Philip will further be revised to HK\$4,428,000, following his appointment as the Chief Executive Officer of the Company with effect from 1 April 2010.
- (2) The amount represents the portion of fair value of the share options granted to the Directors through the years, which is recognised as expenses for the year. For accounting purposes, it is required to expense the fair value of share options granted, determined at the date of grant, on a straight-line basis over the vesting period. Upon resignation/retirement of Directors, certain share options previously granted to them have lapsed, and the portion of fair value of such share options, which has been recognised as expenses in the current and prior years, has been written back in accordance with applicable accounting standards.

REMUNERATION COMMITTEE REPORT

SERVICE CONTRACTS

No service contract of any Director contains a notice period exceeding twelve months.

SHARE OPTIONS

The Company operates a share option scheme for Directors and employees of the Group. The share option scheme adopted on 20 January 1997 (the "Old Scheme") has been terminated and replaced by a new share option scheme on 27 August 2002 (the "Existing Scheme"). No further option can be granted under the Old Scheme, and all options granted prior to such termination have been exercised or lapsed.

To motivate the Executive Directors and key executives through share ownership and performance-based incentives, the Board has adopted the proposal of the Remuneration Committee to give long-term incentive to the Executive Directors through share options granted under the Existing Scheme and applied vesting conditions based on TSR to such grants. Under this long-term incentive arrangement, share options were granted conditionally to the Executive Directors over rolling 3-year periods that would vest only if the TSR of the Company at the end of each specific 3-year period was positive and equalled or exceeded the return of the Hang Seng Index. External consultants are retained to assist with the measurement of the TSR of the Company and the return of the Hang Seng Index. The first grant was made in 2007. During the year, further grants were made to the following Executive Directors with the vesting of the share options based on the TSR over the period from the beginning of 2009 to the end of 2011, before the Committee considered other measurement criteria to replace the TSR:

Name of Directors	Subscription price per share HK\$	Number of shares subject to the options granted
Mr. Choi Yuk Keung, Lawrence	7.63	1,000,000
Mr. Wong Yuet Leung, Frankie	7.63	2,000,000
Ms. Lau Jeny (resigned on 1 June 2009)	7.63	1,250,000 (Note 1)
Mrs. Lowe Hoh Wai Wan, Vivien (retired on 1 December 2009)	7.63	750,000 (Note 2)

Notes:

- (1) This share option has lapsed upon the resignation of Ms. Lau Jeny as a Director on 1 June 2009.
- (2) Upon the retirement of Mrs. Lowe Hoh Wai Wan, Vivien on 1 December 2009, the Board has decided that the pro rata entitlement of Mrs. Lowe for vesting of this share option to be 250,000 shares, which is exercisable within a period of 12 months after the date of her retirement in accordance with the terms of the Existing Scheme and subject to the terms of the relevant offer letter.

In addition, the Committee has reviewed the performance of the Executive Directors in achieving the goals and objectives set for the year for the Company and for each of them individually. The Committee assessed the Company performance. The assessment of individual performance was made initially by the Chairman in respect of the Chief Executive Officer and by the Chief Executive Officer in respect of the other Executive Directors. The individual performance assessments were reviewed and discussed by the Committee with the two appraisers. Consequently, the Committee recommended and the Board approved the grants of the following share options to the Executive Directors during the year:

Name of Directors	Subscription price per share HK\$	Number of shares subject to the options granted
Mr. Choi Yuk Keung, Lawrence	7.63	250,000
Mr. Wong Yuet Leung, Frankie	7.63	750,000
Ms. Lau Jeny (resigned on 1 June 2009)	7.63	500,000 (Note 1)
Mrs. Lowe Hoh Wai Wan, Vivien (retired on 1 December 2009)	7.63	250,000 (Note 2)

Notes:

- (1) This share option has lapsed upon the resignation of Ms. Lau Jeny as a Director on 1 June 2009.
- (2) Upon the retirement of Mrs. Lowe Hoh Wai Wan, Vivien on 1 December 2009, this share option became vested and is exercisable within a period of 12 months after the date of her retirement in accordance with the terms of the Existing Scheme and subject to the terms of the relevant offer letter.

Details of the annual and special grants of share options to the other executives and employees of the Group during the year are set out in the Directors' Report on pages 78 to 89.

AUDIT COMMITTEE REPORT

The Audit Committee of the Company is pleased to present its report for the year ended 31 December 2009.

COMPOSITION

The composition of the Audit Committee is as follows:

Mr. Anthony Griffiths (*Chairman of the Committee*)
Professor Michael Enright
Mr. Gerrit de Nys
Ms. Li Hoi Lun, Helen

Except for Professor Michael Enright, who is a Non-executive Director, the Committee members are Independent Non-executive Directors of the Company, with the Chairman having the appropriate professional qualifications as required under the Listing Rules. No member of the Audit Committee is a former partner of the Company's existing external auditor. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of public companies. The Board expects the Committee members to exercise independent judgment in conducting the business of the Committee.

MEETING ATTENDANCE

The Audit Committee met four times during the year under review and the attendance of the individual members is set out as follows:

Name of Committee members	Attendance/ Number of meetings
Mr. Anthony Griffiths	4/4
Professor Michael Enright	3/4
Mr. Gerrit de Nys	4/4
Ms. Li Hoi Lun, Helen	4/4

Other attendees at each of the meetings were the Senior Manager in charge of the Company's Corporate Evaluation Department, responsible for internal audit, and, by invitation, the Chief Financial Officer and the Director – Corporate Finance responsible for the finance and accounting function, together with senior representatives of the external auditor. The Company Secretary acts as the secretary to the Audit Committee.

ROLE AND DUTIES

Under its terms of reference, the principal responsibilities of the Audit Committee include review of both the Group's financial statements and the effectiveness of its internal control systems. The Audit Committee also oversees the engagement of the external auditor and reviews its independence as well as the effectiveness of the audit process. The terms of reference of the Audit Committee are available on the Company's website.

WORK DURING THE YEAR

The work performed by the Audit Committee during the year included reviews of the:

- estimates and judgment of a material nature made by management in accordance with the accounting policies of the Group;
- Group's audited consolidated financial statements and other related documents for the year ended 31 December 2008 and the final results announcement, with a recommendation to the Board for approval;
- Group's unaudited consolidated financial statements and other related documents for the six months ended 30 June 2009 and the interim results announcement, with a recommendation to the Board for approval;
- accounting treatment for the acquisition of the 57.12% interest in China Central Properties Limited not previously owned by the Group;
- internal control systems of the various cement plants of the Group in the Chinese Mainland, including involvement in the internal audit review of Lafarge Shui On Cement Limited, a joint venture owned 45% by the Group;
- business risks of the investment in Yangtze Ventures and On Capital China Funds;
- business risks of the property projects in Shenyang, Chengdu and Dalian in the Chinese Mainland, supplemented by the whole Committee visiting the projects in Dalian and Shenyang, and the plan for the property business of the Company;

AUDIT COMMITTEE REPORT

- operational and financial controls of the construction and fitting-out business in Hong Kong, Macau and the Chinese Mainland;
- Company's processes of monitoring liquidity, raising bank loans and accounting for results of affiliates;
- intrusion test on the IT networks of the Company;
- connected transactions reported quarterly, including the application of and compliance with the Company's policy on connected transactions;
- adequacy of the provisions for doubtful debts on quarterly basis;
- credit ratings of banks supporting the Group and insurance companies covering the Group's insurable risks;
- reports and management letters submitted by the external auditor, which summarised matters arising from its audit of the Group's consolidated financial statements for the year ended 31 December 2008 and review of the Group's consolidated financial statements for the six months ended 30 June 2009;
- fee proposals of the external auditor for the review of the Group's consolidated financial statements for the six months ended 30 June 2009 and for the audit of the Group's consolidated financial statements for the year ended 31 December 2009 and its scope of work;
- key performance indicators and annual work programme of the Company's Corporate Evaluation Department as well as its work progress, staffing and resources planning;
- adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget; and
- risk management activities and corporate controls of the Group.

The Committee members also serve as the contact persons under the whistle-blowing policy of the Company. During the financial year, no contact was made via this reporting channel.

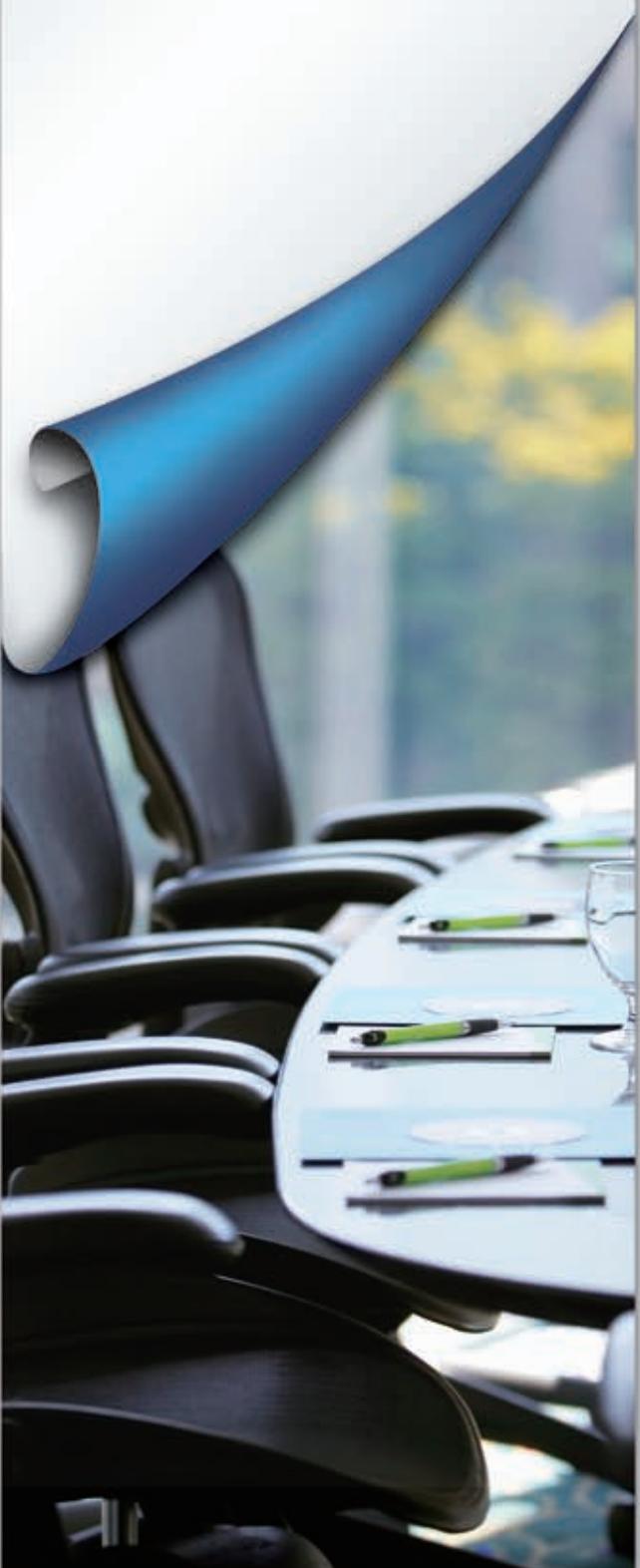
Further, the Committee reviewed the Group's risk management policy and proposed amendments to clearly delineate the responsibility of the staff and management for maintaining effective internal controls. A high level review of internal controls of the Group was also performed at the end of the year. The Committee will continue to review the Group's systems and policies for assessing and taking action to contain the different types of risk in its various operations as part of the Committee's ongoing review of the adequacy of the Group's internal controls.

In addition, the Committee keeps under constant review changes to the Hong Kong Financial Reporting Standards with the assistance of the Senior Manager in charge of the Company's Corporate Evaluation Department and the external auditor to assess their application to the accounting policies adopted by the Group and, where applicable, their effective adoption by the Group.

All the recommendations of the Committee to management and the Board were accepted and implemented.

Subsequent to the financial year end, the Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2009, including the accounting principles and practices adopted by the Group, and recommended them to the Board for approval.

DIRECTORS AND SENIOR MANAGEMENT



EXECUTIVE DIRECTORS

Mr. Lo Hong Sui, Vincent GBS, JP

aged 62, has been the Chairman of the Company since 1997. He is the chairman of the Shui On Group, which he founded 39 years ago. He is also the chairman and chief executive officer of Shui On Land Limited, which he established in 2004 and became listed in Hong Kong in 2006. He is also the chairman of China Central Properties Limited ("CCP"), which became a wholly-owned subsidiary of the Company after privatisation in 2009. Mr. Lo is a member of the Eleventh National Committee of the Chinese People's Political Consultative Conference, the president of the Shanghai – Hong Kong Council for the Promotion and Development of Yangtze, an economic adviser of the Chongqing Municipal Government, a vice chairman of the Chamber of International Commerce Shanghai, the honorary life president of the Business and Professionals Federation of Hong Kong and an honorary court chairman of The Hong Kong University of Science and Technology. He was also appointed as a Hong Kong's representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council in January 2010. Mr. Lo is currently a non-executive director of Great Eagle Holdings Limited and Hang Seng Bank Limited, both of which are listed in Hong Kong. He was an independent non-executive director of China Telecom Corporation Limited, a listed company in Hong Kong, from September 2002 to September 2008.

Mr. Lo was awarded the Gold Bauhinia Star in 1998 and appointed a Justice of the Peace in 1999 by the Government of the Hong Kong Special Administrative Region. He was made an Honorary Citizen of Shanghai in 1999. He was named Businessman of the Year by the Hong Kong Business Awards in 2001 and won the Director of the Year Award in the category of Listed Company Executive Directors from The Hong Kong Institute of Directors in 2002. He was honoured with "Ernst & Young Entrepreneur Of The Year 2009" in the China Real Estate Category, and was also chosen as the "Ernst & Young Entrepreneur Of The Year 2009 China" country award winner.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Choi Yuk Keung, Lawrence

aged 56, was the Managing Director of the Company from 1997 to 2004 and was appointed Vice Chairman of the Company in July 2004. He has also been an executive director of the Shui On Group since 1990. He was a director of Shui On Land Limited from May 2004 to May 2006. He was appointed managing director of the Shui On Group's construction division in 1991 and of the construction materials division in 1995. Mr. Choi is a member of the Standing Committee of the Ninth and the Tenth Guizhou Provincial Committee of the Chinese People's Political Consultative Conference. He joined the Shui On Group in 1973 and has over 30 years of experience in construction. He holds a Bachelor of Science degree in Engineering from the University of California, Berkeley.

Mr. Wong Yuet Leung, Frankie

aged 61, was the Chief Executive Officer of the Company from July 2004 to March 2010 and the Vice Chairman from 1997 to 2004. He joined the Shui On Group in 1981 and has been the managing director of Shui On Holdings Limited since 1991. He was a director of Shui On Land Limited from May 2004 to May 2006. He is also a director of CCP and one of the trustees of the Shui On Provident and Retirement Scheme. Prior to joining the Shui On Group, Mr. Wong had many years of banking experience with several major international banks in Hong Kong. He graduated with a Bachelor of Science degree in Economics and a Master of Arts degree from the London School of Economics and Political Science and The University of Lancaster in the United Kingdom respectively. Mr. Wong is currently a non-executive director of CIG Yangtze Ports PLC and an independent non-executive director of Solomon Systech (International) Limited, both of which are listed in Hong Kong, and a non-executive director of Walcom Group Limited, a company listed on AIM of the London Stock Exchange. He was also a non-executive director of Cosmedia Group Holdings Limited, a company which was delisted from AIM of the London Stock Exchange in December 2008.

With effect from 1 April 2010, Mr. Wong has retired from the role of Chief Executive Officer and has been appointed as a Vice Chairman of the Company, devoting his attention to enhancing the value of the Group's cement investment.

Mr. Wong Kun To, Philip

aged 53, has been appointed as an Executive Director of the Company since 1 July 2009. He started his career in the Shui On Group and worked from 1979 to 1992, before he rejoined the Company in 2006. He has since April 2007 been the managing director of SOCAM Asset Management (HK) Limited and is in charge of the property division of the Company. Following the privatisation of CCP, he has been appointed as the managing director of Shui On China Central Properties Limited, the flagship of the property business of the Group. Mr. Wong has over 25 years of experience in construction management, investment and property development. He is a member of the Dalian Municipal Committee of the Chinese People's Political Consultative Conference. He holds a Bachelor of Engineering degree and is a member of The Hong Kong Institution of Engineers.

With effect from 1 April 2010, Mr. Wong has been appointed as the Chief Executive Officer of the Company, to succeed Mr. Wong Yuet Leung, Frankie.

Mr. Wong Fook Lam, Raymond

aged 55, has been appointed as an Executive Director of the Company since 1 July 2009 and is the Chief Financial Officer of the Company. He is also an executive director of CCP. He joined the Shui On Group in 1989 and was the finance director between 1992 and 1995. He was an Executive Director of the Company from 1997 to 2007. Upon the listing of CCP on AIM of the London Stock Exchange, Mr. Wong resigned as an Executive Director of the Company in June 2007 and dedicated his effort to focusing on the business and affairs of CCP. He rejoined the Company following the privatisation of CCP in June 2009. He is one of the trustees of the Shui On Provident and Retirement Scheme. Prior to joining the Shui On Group, Mr. Wong worked with a leading international accounting firm in their London, Melbourne and Hong Kong offices. He is a Fellow of The Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and an Associate of The Institute of Chartered Accountants in Australia.

NON-EXECUTIVE DIRECTOR

Professor Michael Enright

aged 51, was an Independent Non-executive Director of the Company from 2000 to 2004 and was re-designated as a Non-executive Director in September 2004. An expert on business strategy and international competition, Professor Enright is a director of Enright, Scott & Associates Limited, an economic and strategic consulting firm, Sun Hung Kai Professor of Business Administration at The University of Hong Kong, director of Asia-Pacific Competitiveness Programmes at the Hong Kong Institute of Economics and Business Strategy and director of Harvard Business School Alumni Association of Hong Kong. He received his Bachelor's degree in Chemistry, Master's degree in Business Administration and Doctor of Philosophy degree in Business Economics all from Harvard University. Before moving to Hong Kong in 1996, Professor Enright spent six years on the faculty of Harvard Business School. He was a director of Shui On Land Limited from May 2004 to May 2006. He is currently an independent non-executive director of Johnson Electric Holdings Limited, a listed company in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Anthony Griffiths

aged 66, has been an Independent Non-executive Director of the Company since 1997. He is the chairman of trustees of the Shui On Provident and Retirement Scheme. Mr. Griffiths is also a non-executive director of Crystal International Limited, Crystal Investment Limited and Yangtze China Investment Limited, a company listed on AIM of the London Stock Exchange, and an independent non-executive director of Manulife Provident Funds Trust Company Limited. He is a Fellow of The Institute of Chartered Accountants in England and Wales, the Institute of Management Consultants (Hong Kong Branch) and The Hong Kong Institute of Directors. He received the Director of the Year Award in the category of Listed Company Non-Executive Directors from The Hong Kong Institute of Directors in 2006.

Mr. Gerrit de Nys

aged 66, has been an Independent Non-executive Director of the Company since August 2007. He joined the Shui On Group in 1978 as managing director of the construction materials division and subsequently also assumed the position of managing director of the construction and contracting division, and was appointed deputy chairman and chief executive of the then publicly listed Shui On (Contractors) Limited in 1988. He left the Shui On Group in 1991 and returned to Australia to set up his own businesses in home building and the leisure industry. In 1994, Mr. de Nys joined the IMC Pan Asia Alliance Group assuming chief executive roles in its subsidiaries and had worked in its Thailand and Singapore offices. He retired from executive responsibilities of the IMC Group in 2006 and is currently the non-executive chairman of IMC Resources (Australia) Pty Ltd. Mr. de Nys has been a non-executive director of Horizon Oil Limited since June 2007 and the non-executive chairman of Red Sky Energy Limited since October 2009, both companies being listed in Australia. He has served during the period from February 2006 to October 2007 as a non-executive director of View Resources Limited, a listed company in Australia. Mr. de Nys has extensive experience in construction. He graduated with a Bachelor of Technology degree in Civil Engineering from The University of Adelaide. He is a chartered professional engineer and a Fellow of the Institution of Engineers, Australia and The Australian Institute of Company Directors.

Ms. Li Hoi Lun, Helen

aged 54, has been an Independent Non-executive Director of the Company since August 2008. Ms. Li is a qualified lawyer in the jurisdictions of Hong Kong, England and Wales and New South Wales, Australia. She studied law in England and commenced practising law in Hong Kong in 1982. Ms. Li worked in private practice, with emphasis on property, commercial and corporate work with a China focus. Prior to joining the Company, she was employed as in-house legal counsel for the companies, and an executive director of the property arm, of the Shui On Group and took early retirement in 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. David Gordon Eldon GBS, CBE, JP

aged 64, has been appointed as an Independent Non-executive Director of the Company since 1 January 2010. He has served as an independent non-executive director of CCP during the period from April 2007 to September 2009. Mr. Eldon commenced a career in banking in 1964 and joined the HSBC Group in 1968 assuming a variety of roles in the Middle East and Asia. He became chairman of Hang Seng Bank Limited and The Hongkong and Shanghai Banking Corporation Limited in 1996 and 1999 respectively. He was also appointed as a director of HSBC Holdings plc in 1999. After 37 years of service, he retired from the HSBC Group in 2005. He is now a senior adviser of PricewaterhouseCoopers, Hong Kong. He is also the non-executive chairman of the Dubai International Financial Centre Authority, honorary steward of the Hong Kong Jockey Club, special adviser to the Korea National Competitiveness Council – Office of the President, past chairman of the Hong Kong General Chamber of Commerce, founding member and past chairman of the Seoul International Business Advisory Council, an international council member of the Bretton Woods Committee and an adviser to Unisys, in addition to holding a number of government and community appointments in Hong Kong. Mr. Eldon is currently an independent non-executive director of Champion Real Estate Investment Trust, a collective investment scheme listed in Hong Kong, and the senior independent non-executive director of Noble Group Limited, a listed company in Singapore. He was also an independent non-executive director of MTR Corporation Limited, which is listed in Hong Kong, from June 2000 to May 2008.

Mr. Eldon is a Fellow of The Chartered Institute of Bankers. He was conferred an Honorary Doctor of Business Administration by the City University of Hong Kong in 2003. In 2004, he was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region. In 2005, he was made a Commander of the British Empire for his contribution to banking, and awarded Honorary Citizenship of Seoul in recognition of his work for the city. He was awarded the Asian Banker Lifetime Achievement Award for 2005.

Mr. Eldon is also a Justice of the Peace.

Mr. Chan Kay Cheung

aged 63, has been appointed as an Independent Non-executive Director of the Company since 1 January 2010. He has served as an independent non-executive director of CCP during the period from April 2007 to September 2009. Mr. Chan is now a senior adviser of The Bank of East Asia, Limited ("BEA") and the vice chairman of The Bank of East Asia (China) Limited. He possesses extensive knowledge and experience in the banking industry. He joined BEA in 1965 and was appointed as an executive director and deputy chief executive of BEA in 1996 and 1997 respectively. He retired from BEA in May 2007 after serving it for over 41 years. Mr. Chan is currently an independent non-executive director of China Electronics Corporation Holdings Company Limited, Chu Kong Shipping Development Company Limited and Four Seas Food Investment Holdings Limited, all of which are listed in Hong Kong. Mr. Chan is a Fellow of The Hong Kong Institute of Bankers, an advisory committee member on the Quality Migrant Admission Scheme of the Hong Kong Immigration Department and an international senior economic consultant of The People's Government of Shaanxi Province.

Mr. Tsang Kwok Tai, Moses

aged 61, has been appointed as an Independent Non-executive Director of the Company since 1 January 2010. He has served as an independent non-executive director of CCP during the period from April 2007 to September 2009. Mr. Tsang has been the chairman and managing partner of Ajia Partners Inc. since 2003 and the chairman and chief executive officer of EC Investment Services Limited since 2000. Prior to joining EC Investment Services Limited, he was a general partner of Goldman Sachs Group where he led the establishment of the Fixed Income Group in Tokyo and headed the Debt Syndicate Group in London. He was chairman of Goldman Sachs (Asia) L.L.C. between 1989 and 1994. Mr. Tsang is currently an independent non-executive director of Fubon Bank (Hong Kong) Limited and a non-executive director of North Asia Strategic Holdings Limited, both of which are listed in Hong Kong. He serves as co-chair of the Asia Pacific Council and is a member of the board of directors of The Nature Conservancy and a councillor of the Copenhagen Climate Council. He is a trustee of The Hong Kong Centre for Economic Research of The University of Hong Kong. He serves as a member of the Brown University Advisory Council in Asia. He is also a member of the executive committee of the World Presidents' Organisation – Hong Kong Chapter.

SENIOR MANAGEMENT

Mr. Lee Wing Kee, Stephen

aged 57, is an executive director of Shui On Building Contractors Limited and Shui On Construction Company Limited. He has been working in the Shui On Group since 1985 and has over 30 years of experience in construction. Mr. Lee is currently the vice president of The Hong Kong Construction Association, Limited and the chairman of its Building Committee. He serves as a council member of the Construction Workers Registration Authority and the chairman of its Qualifications Committee. He holds a Bachelor of Science degree in Civil Engineering. He is a chartered civil engineer.

Ir Kwan Chi Ping, Edgar JP

aged 60, rejoined the Company and was appointed as deputy managing director of SOCAM Asset Management (HK) Limited in May 2007. He has over 35 years of international experience in construction and project management as well as facilities management. He is a chartered engineer in the United Kingdom and a registered structural engineer in Hong Kong. He is also a Fellow of The Institution of Civil Engineers, United Kingdom, The Institution of Structural Engineers, United Kingdom, and The Hong Kong Institution of Engineers. He received his Bachelor of Science and Master of Science degrees both in Civil Engineering from The University of Hong Kong and a Master of Business Administration degree from The Chinese University of Hong Kong. He has been actively involved in a wide array of community services in Hong Kong and the Chinese Mainland and has been appointed a Justice of the Peace by the Government of the Hong Kong Special Administrative Region.

Mr. Ng Yat Hon, Gilbert

aged 49, is a director and the general manager of Pat Davie Limited, specialising in interior fitting out and renovation in Hong Kong and Macau. He joined the Shui On Group in 1996 and has over 20 years of experience in construction. He holds a Bachelor's degree in Civil Engineering from The University of Manchester and a Master's degree in Project Management from The University of New South Wales. He is a chartered civil engineer.

Mr. Li Chi Keung, Evans

aged 48, is the director – corporate finance of the Company. He joined the Shui On Group in 1991 and has over 25 years of accounting, finance and company secretarial experience. He holds a Master's degree in Business Administration from the University of Leicester. He is a Fellow of The Association of Chartered Certified Accountants and an Associate of the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

Mr. Sincere Wong

aged 45, is the chief legal officer of the Company and a director of SOCAM Asset Management (HK) Limited. He joined the Company in November 2006. He has over 10 years of in-house legal counsel experience with major listed conglomerates in Hong Kong which he gained prior to joining the Company. He holds a Bachelor of Social Science degree in Journalism and Communication from The Chinese University of Hong Kong and has been a qualified lawyer in the jurisdictions of Hong Kong and England and Wales since 1993 and 1994 respectively.

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries, jointly controlled entities and associates are set out in notes 47, 48 and 49 to the consolidated financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 92.

The Directors recommend the payment of a final dividend of HK\$0.25 per share to the shareholders on the register of members of the Company on 28 May 2010, amounting to HK\$122 million.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 36 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 96.

Under the Companies Act 1981 of Bermuda (as amended), in addition to retained profits, contributed surplus is also distributable to the shareholders of the Company. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31 December 2009, the Company's reserves, including the contributed surplus, available for distribution to shareholders amounted to HK\$565 million (2008: HK\$875 million).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 179.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the year are set out in note 17 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:

Mr. Lo Hong Sui, Vincent
Mr. Choi Yuk Keung, Lawrence
Mr. Wong Yuet Leung, Frankie
Mr. Wong Kun To, Philip
(appointed on 1 July 2009)
Mr. Wong Fook Lam, Raymond
(appointed on 1 July 2009)
Ms. Lau Jeny
(resigned on 1 June 2009)
Mrs. Lowe Hoh Wai Wan, Vivien
(retired on 1 December 2009)

Non-executive Director:

Professor Michael Enright

Independent Non-executive Directors:

Mr. Anthony Griffiths
Mr. Gerrit de Nys
Ms. Li Hoi Lun, Helen
Mr. David Eldon
(appointed on 1 January 2010)
Mr. Chan Kay Cheung
(appointed on 1 January 2010)
Mr. Tsang Kwok Tai, Moses
(appointed on 1 January 2010)

In accordance with Bye-law 86(2) of the Bye-laws of the Company, Mr. Wong Kun To, Philip, Mr. Wong Fook Lam, Raymond, Mr. David Eldon, Mr. Chan Kay Cheung and Mr. Tsang Kwok Tai, Moses shall retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In accordance with Bye-law 87(1) of the Bye-laws of the Company, Professor Michael Enright, Mr. Anthony Griffiths and Mr. Gerrit de Nys shall retire by rotation at the forthcoming annual general meeting. Professor Michael Enright and Mr. Anthony Griffiths, who have served the Company as Non-executive Directors for over 9 years, do not stand for re-election. Mr. Gerrit de Nys, being eligible, will offer himself for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year

without payment of compensation other than statutory compensation.

Since 2008, arrangements have been put in place for the appointment of new Non-executive Directors for a specific term of 3 years under a service contract entered into with each of them upon their appointment. Arrangements for the execution of a similar service contract will be made with each of the other Non-executive Directors who retire and are re-elected at the forthcoming annual general meeting of the Company.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

At 31 December 2009, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") or which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

(a) Long position in the shares of the Company

Name of Directors	Number of ordinary shares			Total	Approximate percentage of the issued share capital
	Personal interests	Family interests	Other interests		
Mr. Lo Hong Sui, Vincent	–	312,000 (Note 1)	181,981,000 (Note 2)	182,293,000	37.34%
Mr. Choi Yuk Keung, Lawrence	540,000	–	–	540,000	0.11%
Mr. Wong Yuet Leung, Frankie	800,000	–	–	800,000	0.16%
Mr. Wong Kun To, Philip	–	152,533 (Note 3)	–	152,533	0.03%
Mr. Wong Fook Lam, Raymond	32,000	–	–	32,000	0.01%

Notes:

- (1) These shares were beneficially owned by Ms. Loletta Chu ("Mrs. Lo"), the spouse of Mr. Lo Hong Sui, Vincent ("Mr. Lo"). Under the SFO, Mr. Lo was deemed to be interested in such shares and both Mr. Lo and Mrs. Lo were also deemed to be interested in 181,981,000 shares mentioned in note (2) below.
- (2) These shares were beneficially owned by Shui On Company Limited ("SOCL"). Of these 181,981,000 shares beneficially owned by SOCL, 166,148,000 shares were held by SOCL itself and 15,833,000 shares were held by Shui On Finance Company Limited, an indirect wholly-owned subsidiary of SOCL. SOCL was owned by the Bosrich Unit Trust, the trustee of which was Bosrich Holdings (PTC) Inc. ("Bosrich"). The units of the Bosrich Unit Trust were the property of a discretionary trust, of which Mr. Lo was a discretionary beneficiary and HSBC International Trustee Limited ("HSBC Trustee") was the trustee. Accordingly, Mr. Lo, Mrs. Lo, HSBC Trustee and Bosrich were deemed to be interested in such shares under the SFO.
- (3) These shares were beneficially owned by the spouse of Mr. Wong Kun To, Philip. Under the SFO, Mr. Wong was deemed to be interested in such shares.

DIRECTORS' REPORT

(b) Short position in the shares of the Company

Name of Director	Number of ordinary shares			Approximate percentage of the issued share capital	
	Personal interests	Family interests	Other interests	Total	
Mr. Lo Hong Sui, Vincent	–	–	1,600,000 (Note)	1,600,000	0.32%

Note: These shares represent the call option granted by SOCL on 27 August 2002 to Mr. Wong Yuet Leung, Frankie as part of the incentive reward to his services to the Company. Mr. Lo, Mrs. Lo, HSBC Trustee and Bosrich were deemed to have short position in these shares under the SFO.

(c) Share options of the Company

Pursuant to the share option scheme of the Company, certain Directors were granted share options to subscribe for the shares of the Company and details of the Directors' interests in share options are set out under the section headed "Share Options" below.

(d) Call option over the shares of the Company

At 31 December 2009, the following Director had a call option granted by SOCL over the shares of the Company pursuant to the arrangement mentioned in the note to item (b) above:

Name of Director	Exercise price	Exercise period	Number of ordinary shares subject to the call option
Mr. Wong Yuet Leung, Frankie	HK\$6.00	27-8-2005 to 26-8-2010	1,600,000

Save as disclosed above, at 31 December 2009, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO) or the Model Code or which were required to be entered in the register required to be kept under section 352 of the SFO.

SHARE OPTIONS

The Company has adopted a share option scheme on 27 August 2002 (the "Existing Scheme") to replace the share option scheme of the Company adopted on 20 January 1997 (the "Old Scheme"). The Old Scheme was terminated on 27 August 2002 and since then, no further option could be granted under the Old Scheme.

Particulars of the Existing Scheme are set out in note 41 to the consolidated financial statements.

During the year, options were granted to subscribe for 19,590,000 shares of the Company under the Existing Scheme. The fair values of the share options granted during the year are set out in note 41 to the consolidated financial statements.

The movements in the share options of the Company during the year are set out as follows:

Name or category of eligible participants	Date of grant	Subscription price per share HK\$	Number of shares subject to options					Period during which options outstanding at 31.12.2009 are exercisable	Average closing reference price for exercise of options (Note c) HK\$	
			At 1.1.2009	Granted during the year (Note a)	Exercised during the year	Lapsed during the year	Cancelled during the year (Note b)			
Directors										
Mr. Choi Yuk Keung, Lawrence (Note d)	3.1.2007 14.6.2007 7.5.2008 7.5.2008 9.4.2009 9.4.2009	16.78 20.96 19.76 19.76 7.63 7.63	700,000 250,000 250,000 1,000,000 250,000 1,000,000	– – – – – 1,000,000	– – – – – –	– – – – – –	– – – – – –	700,000 250,000 250,000 1,000,000 250,000 1,000,000	3.1.2010 to 2.1.2017 14.12.2007 to 13.6.2012 7.11.2008 to 6.5.2013 7.5.2011 to 6.5.2018 9.10.2009 to 8.4.2014 9.4.2012 to 8.4.2019	– – – – – –
Mr. Wong Yuet Leung, Frankie (Note d)	1.8.2006 3.1.2007 14.6.2007 7.5.2008 7.5.2008 9.4.2009	14.00 16.78 20.96 19.76 19.76 7.63	2,000,000 1,500,000 500,000 500,000 2,000,000 2,000,000	– – – – – –	– – – – – –	– – – – – –	– – – – – –	2,000,000 1,500,000 500,000 500,000 2,000,000 2,000,000	1.2.2007 to 31.7.2011 3.1.2010 to 2.1.2017 14.12.2007 to 13.6.2012 7.11.2008 to 6.5.2013 7.5.2011 to 6.5.2018 9.10.2009 to 8.4.2014 9.4.2012 to 8.4.2019	– – – – – –
Mr. Wong Kun To, Philip (appointed on 1 July 2009) (Notes d and e)	3.1.2007 14.6.2007 5.6.2009 5.6.2009	16.78 20.96 11.90 11.90	2,800,000 200,000 – –	– – 1,830,000 104,000	– – – –	– – – –	(2,800,000) (200,000) – –	– – 1,830,000 104,000	3.1.2010 to 2.1.2012 1.7.2010 to 13.6.2012 3.1.2010 to 2.1.2012 1.7.2010 to 13.6.2012	– – – –
Mr. Wong Fook Lam, Raymond (appointed on 1 July 2009) (Note e)	1.8.2006 3.1.2007 14.6.2007	14.00 16.78 20.96	176,000 700,000 200,000	– – –	– – –	– – –	– – –	176,000 700,000 200,000	1.2.2007 to 31.7.2011 3.1.2010 to 2.1.2017 14.12.2007 to 13.6.2012	– – –
Sub-total			12,776,000	5,934,000	–	–	(3,000,000)	15,710,000		
Ex-Directors										
Ms. Lau Jeny (resigned on 1 June 2009)	7.5.2008 9.4.2009 9.4.2009	19.76 7.63 7.63	1,000,000 500,000 –	– – 1,250,000	– – –	(1,000,000) (500,000) (1,250,000)	– – –	– – –	7.5.2011 to 6.5.2018 9.10.2009 to 8.4.2014 9.4.2012 to 8.4.2019	– – –
Mrs. Lowe Hoh Wai Wan, Vivien (retired on 1 December 2009) (Note f)	1.8.2006 3.1.2007 14.6.2007 7.5.2008 7.5.2008 9.4.2009 9.4.2009	14.00 16.78 20.96 19.76 19.76 7.63 7.63	120,000 625,000 176,000 200,000 750,000 250,000 750,000	– – – – – – –	– – – – – – –	– – – – – – –	– – – – – – –	120,000 176,000 200,000 75,2011 to 6.5.2018 250,000 250,000	1.2.2007 to 31.7.2011 3.1.2010 to 2.1.2017 14.12.2007 to 13.6.2012 7.11.2008 to 6.5.2013 7.5.2011 to 6.5.2018 9.10.2009 to 8.4.2014 9.4.2012 to 8.4.2019	– – – – – – –
Sub-total			2,871,000	2,750,000	–	(4,625,000)	–	996,000		
Employees (in aggregate)										
26.7.2004 29.7.2005 1.8.2006 3.1.2007 14.6.2007 14.6.2007 14.6.2007 7.5.2008 7.5.2008 9.4.2009 5.6.2009 5.6.2009 5.6.2009	7.25 9.30 14.00 16.78 20.96 20.96 20.96 19.76 19.76 7.63 11.90 11.90 11.90	88,000 322,000 952,000 6,000,000 1,824,000 – – – – – – – – –	– (84,000) – – (120,000) – – – – (243,000) – – – –	(88,000) (84,000) – – (120,000) – – – – (16,000) – – – –	– – – – – – – – – – – – – –	– – 952,000 (6,000,000) – – – – – – – – – – –	– – 952,000 – – – – – – – – – – –	26.1.2005 to 25.7.2009 29.1.2006 to 28.7.2010 1.2.2007 to 31.7.2011 3.1.2010 to 2.1.2012 14.12.2007 to 13.6.2012 14.12.2008 to 13.6.2012 1.7.2010 to 13.6.2012 7.11.2008 to 6.5.2013 7.5.2011 to 6.5.2018 9.10.2009 to 8.4.2014 3.1.2010 to 2.1.2012 1.7.2010 to 13.6.2012 7.5.2011 to 6.5.2013 9.10.2009 to 8.4.2014	10.20 12.18 – – – – – – – – – – – –	
Sub-total			19,576,000	10,906,000	(415,000)	(1,136,000)	(12,000,000)	16,931,000		
Total			35,223,000	19,590,000	(415,000)	(5,761,000)	(15,000,000)	33,637,000		

DIRECTORS' REPORT

Notes:

- (a) The closing prices of the Company's shares preceding the dates on which the share options were granted on 9 April 2009 and 5 June 2009 were HK\$7.20 and HK\$11.58 respectively.
- (b) These share options were cancelled in exchange for the share options granted on 5 June 2009, details of which have been set out in the Company's announcement dated 8 June 2009.
- (c) The average closing reference price represented the average of the closing prices of the Company's shares immediately before the dates on which the share options were exercised during the year, weighted by the number of shares subject to the options exercised.
- (d) Mr. Choi Yuk Keung, Lawrence, Mr. Wong Yuet Leung, Frankie and Mr. Wong Kun To, Philip were previously granted share options in excess of their respective maximum individual entitlement of 1%.
- (e) Mr. Wong Kun To, Philip and Mr. Wong Fook Lam, Raymond, being eligible participants, have been granted share options under the Existing Scheme prior to their appointment as Directors of the Company on 1 July 2009. Following their appointment as Directors, their share options were re-classified under the category "Directors" accordingly.
- (f) Mrs. Lowe Hoh Wai Wan, Vivien retired from the Company on 1 December 2009. In accordance with the terms of the Existing Scheme and subject to the terms of the relevant offer letters, the outstanding share options of Mrs. Lowe are exercisable within a period of 12 months after the date of her retirement.
- (g) The vesting of all share options granted to the eligible participants is subject to the vesting schedules and/or performance conditions as set out in the respective offer letters. Details about the performance conditions and the vesting schedules for the share options granted are set out in note 41 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below and under the section headed "Interests of Directors and Chief Executive" above, the Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, at 31 December 2009, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in the shares of the Company

Name of shareholders	Capacity	Number of ordinary shares/underlying shares	Approximate percentage of the issued share capital
John Zwaanstra	Interest of controlled corporation	136,698,116 (Note 1)	28.00%
Penta Investment Advisers Limited	Investment manager	136,698,116 (Note 1)	28.00%
Mercurius GP LLC	Founder of discretionary trust	61,236,064 (Note 2)	12.54%
Todd Zwaanstra	Trustee	61,236,064 (Note 2)	12.54%
Penta Asia Fund, Ltd.	Interest of controlled corporation	61,236,064 (Note 2)	12.54%
UBS AG	Beneficial owner/Holder of security interest in shares	38,995,753	7.98%

Notes:

- (1) Among the interests owned by these shareholders, 35,425,617 shares were cash settled derivative interests.
- (2) Among the interests owned by these shareholders, 15,424,000 shares were cash settled derivative interests.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company, its ultimate holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2009 with the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the deviations from Code Provisions A.4.1 and B.1.3. Details are set out in the Corporate Governance Report on pages 55 to 65.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. The Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standard set out in the Model Code during the year ended 31 December 2009.

The Company has received written annual confirmation from each Independent Non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all of its Independent Non-executive Directors to be independent of management and free of any relationship that could materially interfere with the exercise of their independent judgment.

CONNECTED TRANSACTIONS

During the year, the Group has entered into the following connected transactions:

- (1) On 11 March 2009, Shui On Construction Company Limited ("SOC"), an indirect wholly-owned subsidiary of the Company, and HSBC Trustee, in its capacity as trustee of a discretionary trust, of which Mr. Lo, the Chairman of the Company, is a discretionary beneficiary, entered into an articles of agreement (the "Articles of Agreement") whereby HSBC Trustee

agreed to engage SOC to carry out the alteration and addition works for residential premises located at Repulse Bay Road, Hong Kong at a contract sum of HK\$8 million subject to the terms and conditions contained therein.

HSBC Trustee is deemed to be interested in 181,981,000 shares of the Company, representing approximately 56.53% of the then issued share capital of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Articles of Agreement constituted a connected transaction for the Company. Since the applicable percentage ratios set out in Rule 14A.10 of the Listing Rules exceed 0.1% but are less than 2.5%, the transaction is subject to the reporting and announcement requirements under the Listing Rules. Details of the transaction have been set out in the Company's announcement dated 11 March 2009.

- (2) On 17 July 2009, Pat Davie Limited ("PDL"), an indirect subsidiary of the Company, was awarded a fitting-out contract (the "Fitting-out Contract") by Panwell Development Limited ("Panwell") whereby Panwell agreed to engage PDL to carry out the interior fitting-out works for residential premises located at Repulse Bay, Hong Kong at an estimated total contract sum of approximately HK\$19.3 million subject to the terms and conditions contained therein. The said engagement was accepted by PDL on 23 July 2009.

Panwell is a company wholly owned by Mr. Lo, the Chairman and controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Fitting-out Contract constituted a connected transaction for the Company.

In May 2009, Panwell also engaged PDL to undertake miscellaneous works for other residential premises for a contract sum of approximately HK\$52,000, which constituted an exempt connected transaction for the Company under the Listing Rules. Since the applicable percentage ratios set out in Rule 14A.10 of the Listing Rules for the Fitting-out Contract, either on its own or when aggregated with the aforesaid works, exceed 0.1% but are less than 2.5%, the Fitting-out Contract is subject to the reporting and announcement requirements under the Listing Rules. Details of the transaction have been set out in the Company's announcement dated 23 July 2009.

DIRECTORS' REPORT

(3) On 18 November 2009, T H Industry I Limited ("T H Industry"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "Equity Transfer Agreement") with 重庆海州建材有限公司 (the "PRC Party") whereby T H Industry agreed to sell and the PRC Party agreed to purchase a 60% equity interest in Chongqing T.H. White Cement Co., Ltd. ("Chongqing White Cement"), a company organised under the laws of the People's Republic of China (the "PRC"), at a consideration of RMB7,680,600 subject to the terms and conditions contained therein. Chongqing White Cement is principally engaged in the manufacture and sale of white cement in the PRC. Completion of the Equity Transfer Agreement is subject to the relevant permit and/or approval having been obtained from the PRC authorities. Upon completion, the Company will no longer hold any equity interest in Chongqing White Cement, which will then cease to be a subsidiary of the Company.

The PRC Party is a substantial shareholder holding 40% equity interest in Chongqing White Cement, an indirect subsidiary of the Company, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Equity Transfer Agreement constituted a connected transaction for the Company. Since the applicable percentage ratios set out in Rule 14A.10 of the Listing Rules exceed 0.1% but are less than 2.5%, the transaction is subject to the reporting and announcement requirements under the Listing Rules. Details of the transaction have been set out in the Company's announcement dated 18 November 2009.

(4) On 11 December 2009, Noble Pearl Limited ("Noble Pearl"), an indirect wholly-owned subsidiary of the Company, agreed to sell and assign to PGR Asian Real Estate Fund, L.P. ("PGR Fund") 12.5% interest in the issued share capital of Eagle Fit Limited ("Eagle Fit") and the relevant portion of shareholder's loan due from Eagle Fit to Noble Pearl in the amount of US\$6,587,500 (the "Shareholder Loan") at a total consideration of US\$6,587,525 and accordingly, Noble Pearl, the Company, PGR Fund, Penta Investment Advisers Limited ("Penta"), Keen Hero International Limited ("Keen Hero"), Many Gain

International Limited ("Many Gain") and Eagle Fit entered into a shareholders deed (the "Shareholders Deed") to govern the management and operation of Eagle Fit and its subsidiaries.

Pursuant to the Shareholders Deed, Noble Pearl, Keen Hero and PGR Fund shall each provide shareholders' loans in an aggregate amount of US\$30,345,000, US\$20,230,000 and US\$7,225,000 in cash respectively to Eagle Fit on an interest free and unsecured basis and with no fixed repayment term for the purpose of funding a "construction in progress" development project located at No. 4 Gongti Bei Lu, Chaoyang District, Beijing, the PRC. Upon assignment of the Shareholder Loan, Noble Pearl, Keen Hero and PGR Fund have made shareholders' loans of US\$27,667,500, US\$18,445,000 and US\$6,587,500 respectively to Eagle Fit in proportion to their shareholdings in Eagle Fit. The remaining shareholders' loans will be injected into Eagle Fit on or before 1 April 2011 in accordance with the payment schedule set out in the Shareholders Deed.

In addition, the Company has provided a 100% guarantee for a banking facility of HK\$550 million granted to a subsidiary of Eagle Fit (the "Loan Facility") and Many Gain and Penta have each provided a counter guarantee and indemnity to the Company in respect of 35% and 12.5% of the Loan Facility in proportion to the shareholdings of Keen Hero and PGR Fund in Eagle Fit respectively in accordance with the terms of the Shareholders Deed.

Penta is a substantial shareholder of the Company and PGR Fund is an associate of Penta. Both Penta and PGR Fund are therefore connected persons of the Company under the Listing Rules. Accordingly, the entering into of the Shareholders Deed constituted a connected transaction for the Company. Since the applicable percentage ratios set out in Rule 14A.10 of the Listing Rules exceed 0.1% but are less than 2.5%, the transaction is subject to the reporting and announcement requirements under the Listing Rules. Details of the transaction have been set out in the Company's announcement dated 11 December 2009.

CONTINUING CONNECTED TRANSACTIONS

(1) As disclosed in the announcement dated 15 February 2007 and the circular dated 8 March 2007 issued by the Company, the construction contracts awarded or to be awarded by Shui On Land Limited ("SOL") and its subsidiaries (collectively "SOL Group") in favour of Shui On Construction Co., Ltd. (formerly known as Shanghai Shui On Construction Co., Ltd.) ("SOCM"), an indirect subsidiary of the Company, under a framework agreement (the "Framework Agreement") dated 4 June 2006 made between SOL and SOCM constituted continuing connected transactions for the Company as Mr. Lo, the Chairman and controlling shareholder of the Company, is also the chairman and controlling shareholder of SOL. Such transactions were subject to the annual caps of RMB285 million, RMB535 million and RMB750 million for the three financial years ended 31 December 2008 respectively.

On 15 December 2008, SOCM and SOL entered into a supplemental agreement (the "Supplemental Agreement") to extend the term of the Framework Agreement for another three financial years to 31 December 2011. Since SOL is an associate of a connected person of the Company, the transactions contemplated under the Framework Agreement (as supplemented by the Supplemental Agreement) constitute continuing connected transactions for the Company and are subject to new caps of RMB410 million, RMB561 million and RMB845 million for the three financial years ending 31 December 2011 respectively. Since the applicable percentage ratios set out in Rule 14A.10 of the Listing Rules for the new caps exceed 2.5%, the continuing connected transactions contemplated by the Framework Agreement (as supplemented by the Supplemental Agreement) are subject to the reporting, announcement and independent shareholders' approval requirements of the Listing Rules. Details of the transactions have been set out in the joint announcement dated 15 December 2008 issued by SOL and the Company and the circular dated 5 January 2009 issued by the Company. Such transactions and new caps were approved by the independent shareholders of the Company on 21 January 2009.

The amount paid or payable to SOCM for the provision of construction services under the Framework Agreement (as supplemented by the Supplemental Agreement) for the year ended 31 December 2009 was approximately RMB196 million. The Independent Non-executive Directors have reviewed such transactions for the year ended 31 December 2009 and confirmed that such

transactions have been entered into by the Group in the ordinary and usual course of its business, on normal commercial terms, and in accordance with the terms of the Framework Agreement (as supplemented by the Supplemental Agreement) that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors has engaged the external auditor of the Company to perform certain agreed upon procedures in respect of these continuing connected transactions of the Group. The auditor has reported its factual findings on these procedures to the Board of Directors and confirmed that such continuing connected transactions (i) have received the approval of the Board of Directors of the Company; (ii) have been entered into in accordance with the terms of the Framework Agreement (as supplemented by the Supplemental Agreement); and (iii) have not exceeded the cap for the year ended 31 December 2009 as disclosed in the said announcement dated 15 December 2008 and circular dated 5 January 2009.

(2) On 28 April 2008, Max Clear Holdings Limited ("Max Clear"), a wholly-owned subsidiary of the Company, Shui On Development Limited ("Shanghai SOD"), a wholly-owned subsidiary of SOL, Yida Group Company Limited ("Yida") and certain subsidiaries of Richcoast Group Limited (collectively the "Dalian Group") entered into a management services agreement (the "Management Services Agreement") pursuant to which each of Max Clear, Shanghai SOD and Yida agreed to provide management services to the Dalian Group in relation to the development and operation of Dalian Tiandi (the "Dalian Project") for a term of three years commencing from 1 January 2008 to 31 December 2010. Pursuant to the Management Services Agreement, Max Clear agreed to provide management services relating to day-to-day management, project management, quality and safety control, sales and marketing, land acquisition and asset management for the Dalian Project at an annual management services fee from the Dalian Group based on 1.5% of an amount calculated based on the total budgeted construction cost for the Dalian Project (which may be revised from time to time).

The Dalian Group is effectively held as to 22% by the Company, as to 48% by SOL and as to 30% by Yida. Mr. Lo, the Chairman and controlling shareholder of the Company, is also the chairman and controlling shareholder of SOL. Accordingly, each member of the Dalian Group is an associate of Mr. Lo and is a connected person of the Company under the Listing

DIRECTORS' REPORT

Rules. The provision of management services by Max Clear to the Dalian Group under the Management Services Agreement constitutes continuing connected transactions for the Company and are subject to the annual caps of RMB6.63 million, RMB19 million and RMB19 million for the three financial years ending 31 December 2010 respectively. Since the applicable percentage ratios set out in Rule 14A.10 of the Listing Rules for the maximum annual management fees receivable by Max Clear under the Management Services Agreement exceed 0.1% but are less than 2.5%, the transactions contemplated under the Management Services Agreement are subject to the reporting and announcement requirements under the Listing Rules. Details of the transactions have been set out in the joint announcement dated 28 April 2008 issued by SOL and the Company.

The fees payable from the Dalian Group for the provision of management services by Max Clear under the Management Services Agreement for the year ended 31 December 2009 amounted to approximately RMB12.3 million. The Independent Non-executive Directors have reviewed such

transactions for the year ended 31 December 2009 and confirmed that such transactions have been entered into by the Group in the ordinary and usual course of its business, on normal commercial terms, and in accordance with the terms of the Management Services Agreement that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors has engaged the external auditor of the Company to perform certain agreed upon procedures in respect of these continuing connected transactions of the Group. The auditor has reported its factual findings on these procedures to the Board of Directors and confirmed that such continuing connected transactions (i) have received the approval of the Board of Directors of the Company; (ii) have been entered into in accordance with the terms of the Management Services Agreement; and (iii) have not exceeded the cap for the year ended 31 December 2009 as disclosed in the said announcement.

DIRECTOR'S INTEREST IN COMPETING BUSINESS

During the year and up to the date of this report, the following Director is considered to have an interest in the businesses, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules as set out below:

Name of Director	Name of entity with businesses considered competing or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Mr. Lo Hong Sui, Vincent	Shui On Land Limited	Property development in the PRC	Director and controlling shareholder

As the Board of the Directors of the Company is independent from the board of SOL and the above Director is unable to control the Board of the Company, the Group is capable of carrying on its businesses independently.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as aforesaid under the sections headed "Connected Transactions" and "Continuing Connected Transactions", no contracts of significance, to which the Company, its ultimate holding company or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REMUNERATION POLICY

The remuneration policy of the Group for rewarding its employees is based on their performance, qualifications and competence displayed.

The emoluments of the Executive Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics, while those of the Non-executive Directors are decided by the Board upon the recommendations by the Chairman of the Company. Further details of the remuneration policy is set out in the Remuneration Committee Report on pages 66 to 70.

The Company has adopted a share option scheme as an incentive to the Directors and eligible employees. Details of the scheme are set out in note 41 to the consolidated financial statements.

RETIREMENT BENEFIT PLANS

Details of the Group's retirement benefit plans are shown in note 37 to the consolidated financial statements.

MAJOR SUPPLIERS AND MAJOR CUSTOMERS

The five largest suppliers of the Group accounted for less than 18% of the total purchases of the Group for the year.

The five largest customers of the Group accounted for approximately 71% of the total turnover of the Group for the year with the largest customer, Hong Kong Housing Authority, accounting for approximately 32% of the turnover of the Group.

Mr. Lo, the Chairman and controlling shareholder of the Company, is also the chairman and controlling shareholder of SOL, the third largest customer of the Group which accounted for approximately 7% of the total turnover of the Group for the year ended 31 December 2009. Save as disclosed herein, none of the Directors, their associates or any shareholder (which, to the knowledge of the Directors, owns more than 5% of the issued share capital of the Company) has a beneficial interest in the five largest customers of the Group.

DONATIONS

During the year, the Company and its subsidiaries made donations of approximately HK\$0.2 million to business associations and institutions.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this report, the Company has maintained a sufficient public float as required under the Listing Rules during the year.

DIRECTORS' REPORT

DISCLOSURE UNDER RULE 13.22 OF THE LISTING RULES

Financial assistance and guarantees to affiliated companies

Financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK\$2,235 million at 31 December 2009, details of which are as follows:

Affiliated companies	Balance at 31 December 2009				
	Unsecured loans				
	Approximate effective percentage of interest	Interest free with no fixed repayment terms HK\$ million	Interest bearing with no fixed repayment terms HK\$ million (Note a)	Guarantee HK\$ million	Total HK\$ million
Brisfull Limited	50%	4	42	–	46
Broad Wise Limited	80%	763	–	–	763
Eagle Fit Limited	53%	203	–	289	492
Guizhou Bijie Shui On Cement Co., Ltd.	80%	62	–	–	62
貴州暢達瑞安水泥有限公司	51%	5	–	–	5
Guizhou Kaili Ken On Concrete Co., Ltd.	75%	2	2	–	4
貴州六礦瑞安水泥有限公司	30%	11	–	–	11
貴州習水瑞安水泥有限公司	90%	38	–	–	38
貴州遵義瑞安水泥有限公司	80%	28	–	–	28
Lamma Yue Jie Company Limited	60%	17	–	–	17
Nanjing Jiangnan Cement Co., Ltd.	60%	138	–	–	138
Richcoast Group Limited	28%	323	242	–	565
Super Race Limited	50%	–	4	–	4
The Yangtze Ventures II Limited	75%	62	–	–	62
		1,656	290	289	2,235

The proforma combined balance sheet of the above affiliated companies at 31 December 2009 is as follows:

	HK\$ million
Non-current assets	5,785
Current assets	5,462
Current liabilities	(2,049)
Net current assets	3,413
Non-current liabilities	(6,756)
Minority interest	(839)
Shareholders' funds	1,603

Details of the above affiliated companies are set out in notes 48 and 49 to the consolidated financial statements.

Notes:

(a) Loans made by the Group to the following affiliated companies are charged at various interest rates.

Affiliated companies	Interest rate per annum
Brisfull Limited	Fixed at 2.5%
Guizhou Kaili Ken On Concrete Co., Ltd.	3-month HIBOR + 2%
Super Race Limited	1-month HIBOR
Richcoast Group Limited	Fixed at 5%

(b) All affiliated companies are accounted for as jointly controlled entities or associates of the Group.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the significant events subsequent to the balance sheet date are set out in note 46 to the consolidated financial statements.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Lo Hong Sui, Vincent

Chairman

30 March 2010

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF
SHUI ON CONSTRUCTION AND MATERIALS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Shui On Construction and Materials Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 92 to 178, which comprise the consolidated balance sheet as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 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 as to 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 judgment, 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 and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 March 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 HK\$ million	2008 HK\$ million
Turnover			
The Company and its subsidiaries		3,200	2,944
Share of jointly controlled entities/associates		3,197	3,689
		6,397	6,633
Group turnover	7	3,200	2,944
Other income	8	149	133
Changes in inventories of finished goods, work in progress, contract work in progress and properties held for sale		109	(17)
Raw materials and consumables used		(651)	(584)
Staff costs		(485)	(417)
Depreciation and amortisation expenses		(15)	(8)
Subcontracting, external labour costs and other expenses		(2,290)	(1,865)
Dividend income from available-for-sale investments		8	67
Fair value changes on investment properties	17	46	27
Fair value changes on embedded derivatives	9	–	(3)
Convertible bonds issued by the Company			
– Fair value changes on embedded derivatives	9	1	239
– Imputed interest expense	10	(28)	(48)
Interest on bank loans and overdrafts and other borrowing costs	10	(218)	(181)
Gain on disposal of available-for-sale investments	21	–	496
Fair value changes on financial assets carried at fair value through profit or loss		–	20
Impairment loss recognised in respect of interests in jointly controlled entities	20	(1)	(12)
Impairment loss on available-for-sale investments		–	(558)
Loss on disposals of interests in jointly controlled entities		(4)	(6)
Discount on acquisition of a subsidiary	11	648	–
Discount on deemed acquisition of interest in an associate	22	–	85
Share of results (excluding impairment loss)			
of jointly controlled entities	7	302	(78)
Share of impairment loss of jointly controlled entities	7	(44)	–
Share of results of associates	7	101	350
Profit before taxation		828	584
Taxation	12	(16)	(15)
Profit for the year	14	812	569
Attributable to:			
Owners of the Company		807	562
Non-controlling interests		5	7
		812	569
Earnings per share	16		
Basic		HK\$1.96	HK\$1.75
Diluted		HK\$1.84	HK\$1.08

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 HK\$ million	2008 HK\$ million
Profit for the year	812	569
Other comprehensive income (expense)		
Gain (loss) on fair value changes of available-for-sale investments	1,034	(2,858)
Reclassification adjustments for amounts transferred to profit or loss:		
– upon disposal of available-for-sale investments	–	(458)
– in respect of impairment loss on available-for-sale investments	–	558
– release of exchange differences upon disposals of interests in jointly controlled entities	(7)	(1)
– release of exchange differences upon deregistration of subsidiaries	(9)	(3)
Exchange differences arising on translation of foreign operations	26	150
Revaluation surplus attributable to the Group's previously held interest in CCP (as defined hereinafter), net of deferred tax of HK\$32 million	95	–
Recognition of actuarial gain (loss)	81	(210)
Share of other comprehensive income of associates/jointly controlled entities	47	231
Other comprehensive income (expense) for the year	1,267	(2,591)
Total comprehensive income (expense) for the year	2,079	(2,022)
Total comprehensive income (expense) attributable to:		
Owners of the Company	2,080	(2,029)
Non-controlling interests	(1)	7
	2,079	(2,022)

CONSOLIDATED BALANCE SHEET

At 31 December 2009

	Notes	2009 HK\$ million	2008 HK\$ million
Non-current Assets			
Investment properties	17	622	–
Property, plant and equipment	18	59	29
Prepaid lease payments	19	43	44
Interests in jointly controlled entities	20	4,265	3,903
Available-for-sale investments	21	2,004	970
Interests in associates	22	332	2,430
Investment in convertible bonds	23	–	194
Club memberships		1	1
Amounts due from jointly controlled entities	24	1,008	554
Amounts due from associates	25	543	568
		8,877	8,693
Current Assets			
Inventories	26	7	13
Prepaid lease payments	19	1	1
Properties held for sale	27	634	53
Properties under development for sale	27	4,806	186
Debtors, deposits and prepayments	28	948	644
Derivative financial instruments	23	–	13
Amounts due from customers for contract work	26	302	219
Amounts due from jointly controlled entities	24	437	481
Amounts due from associates	25	39	49
Amounts due from related companies	29	39	46
Taxation recoverable		3	–
Pledged bank deposit	30	–	76
Restricted bank deposits	31	299	–
Bank balances, deposits and cash	28	1,545	617
		9,060	2,398
Assets classified as held for sale	32	704	445
		9,764	2,843

CONSOLIDATED BALANCE SHEET

At 31 December 2009

	Notes	2009 HK\$ million	2008 HK\$ million
Current Liabilities			
Creditors and accrued charges	33	1,403	868
Sales deposits received		312	–
Amounts due to customers for contract work	26	124	132
Amounts due to jointly controlled entities	24	345	344
Amounts due to associates	25	–	28
Amounts due to related companies	29	–	2
Amounts due to non-controlling shareholders of subsidiaries	29	6	–
Taxation payable		57	11
Derivative financial instruments	34	–	1
Bank borrowings due within one year	35	4,980	3,448
Convertible bonds	34	–	430
		7,227	5,264
Liabilities associated with assets classified as held for sale	32	328	63
		7,555	5,327
Net Current Assets (Liabilities)		2,209	(2,484)
Total Assets Less Current Liabilities		11,086	6,209
Capital and Reserves			
Share capital	36	488	322
Reserves		8,515	4,677
		9,003	4,999
Equity attributable to owners of the Company		45	55
Non-controlling interests		9,048	5,054
		1,660	1,070
Non-current Liabilities			
Bank borrowings	35	–	84
Defined benefit scheme liabilities	37	378	1
Deferred tax liabilities	38	2,038	1,155
		11,086	6,209

The consolidated financial statements on pages 92 to 178 were approved and authorised for issue by the Board of Directors on 30 March 2010 and are signed on its behalf by:

Wong Yuet Leung, Frankie
Chief Executive Officer

Wong Fook Lam, Raymond
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company														
	Share		Contributed			Share		Actuarial		Investment		Other		Non-	
	Share	premium	Translation	surplus	Goodwill	Retained	Reserve	option	gain	revaluation	reserve	reserve	Total	controlling	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
At 1 January 2009	322	1,430	485	197	(3)	2,252	3	73	(117)	-	357	4,999	55	5,054	
Fair value changes of available-for-sale investments	-	-	-	-	-	-	-	-	-	1,034	-	1,034	-	1,034	
Exchange differences arising on translation of financial statements of foreign operations	-	-	26	-	-	-	-	-	-	-	-	26	-	26	
Revaluation surplus attributable to the Group's previously held interest in CCP, net of deferred tax	-	-	-	-	-	-	-	-	-	-	95	95	-	95	
Recognition of actuarial gain	-	-	-	-	-	-	-	81	-	-	-	81	-	81	
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	-	42	42	-	42	
Share of other comprehensive income of a jointly controlled entity	-	-	-	-	-	-	-	-	-	-	5	5	-	5	
Deregistration of subsidiaries	-	-	(3)	-	-	-	-	-	-	-	-	(3)	(6)	(9)	
Disposal of interests in jointly controlled entities	-	-	(7)	-	-	-	-	-	-	-	-	(7)	-	(7)	
Profit for the year	-	-	-	-	-	807	-	-	-	-	-	807	5	812	
Total comprehensive income (expense) for the year	-	-	16	-	-	807	-	-	81	1,034	142	2,080	(1)	2,079	
Issue of shares upon acquisition of a subsidiary	166	1,762	-	-	-	-	-	-	-	-	-	-	1,928	-	1,928
Issue of shares upon exercise of share options	-	3	-	-	-	-	-	-	-	-	-	-	3	-	3
Recognition of share-based payments	-	-	-	-	-	-	-	42	-	-	-	-	42	-	42
Transfer upon exercise of share options	-	1	-	-	-	-	-	(1)	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(49)	-	-	-	-	-	(49)	(7)	(56)	
Other movements with non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)	
At 31 December 2009	488	3,196	501	197	(3)	3,010	3	114	(36)	1,034	499	9,003	45	9,048	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company													Non-controlling interests	Total Equity		
	Share		Contributed			Share		Actuarial		Investment		Other					
	Share capital	premium account	Translation reserve	surplus (Note a)	Goodwill	Retained profits	Reserve funds	option reserve	and loss	revaluation reserve	(Note b)	Total					
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million		
At 1 January 2008	321	1,411	210	197	(3)	1,964	2	34	93	2,758	255	7,242	53	7,295			
Fair value changes of available-for-sale investments	-	-	-	-	-	-	-	-	-	(2,858)	-	(2,858)	-	(2,858)			
Exchange differences arising on translation of financial statements of foreign operations	-	-	147	-	-	-	-	-	-	-	-	147	3	150			
Recognition of actuarial loss	-	-	-	-	-	-	-	-	(210)	-	-	(210)	-	(210)			
Share of other comprehensive income of associates	-	-	129	-	-	-	-	-	-	-	-	129	-	129			
Share of other comprehensive income of a jointly controlled entity	-	-	-	-	-	-	-	-	-	-	102	102	-	102			
Disposal of available-for-sale investments	-	-	-	-	-	-	-	-	-	(458)	-	(458)	-	(458)			
Impairment loss recognised in respect of available-for-sale investments	-	-	-	-	-	-	-	-	-	558	-	558	-	558			
Disposal of interests in a jointly controlled entity	-	-	(1)	-	-	-	-	-	-	-	-	(1)	-	(1)			
Deregistration of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(3)	(3)			
Profit for the year	-	-	-	-	-	562	-	-	-	-	-	562	7	569			
Total comprehensive income (expense) for the year	-	-	275	-	-	562	-	-	(210)	(2,758)	102	(2,029)	7	(2,022)			
Issue of shares upon exercise of share options	-	4	-	-	-	-	-	-	-	-	-	4	-	4			
Conversion of convertible bonds	1	14	-	-	-	-	-	-	-	-	-	15	-	15			
Recognition of share-based payments	-	-	-	-	-	-	-	40	-	-	-	40	-	40			
Transfer upon exercise of share options	-	1	-	-	-	-	-	(1)	-	-	-	-	-	-			
Transfer to statutory reserve	-	-	-	-	-	(1)	1	-	-	-	-	-	-	-			
Dividends paid	-	-	-	-	-	(273)	-	-	-	-	-	(273)	(5)	(278)			
At 31 December 2008	322	1,430	485	197	(3)	2,252	3	73	(117)	-	357	4,999	55	5,054			

Notes:

- (a) The contributed surplus of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1997.
- (b) Other reserve of the Group include (i) an amount of HK\$231 million recognised in prior years, which arose when the Group entered into agreements with Shui On Company Limited ("SOCL"), the Company's substantial shareholder, to co-invest in Shui On Land Limited during the year ended 31 March 2005; (ii) an amount of HK\$102 million, which represents the Group's share of compensation recognised by Lafarge Shui On Cement Limited in the form of donation in respect of losses in the earthquake in Sichuan during the year ended 31 December 2008; (iii) an amount of HK\$42 million recognised during the year, which represents the Group's share of revaluation reserve of a then associate, China Central Properties Limited ("CCP"), arising from an acquisition achieved in stages by CCP; and (iv) an amount of HK\$95 million, which represents the revaluation surplus of the Group's 42.88% previously held interest in CCP, recognised upon the acquisition of the remaining 57.12% interest in CCP during the current year (see note 42).

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	2009 HK\$ million	2008 HK\$ million
OPERATING ACTIVITIES		
Profit before taxation	828	584
Adjustments for:		
Impairment loss on properties	10	–
Impairment loss recognised in respect of interests in jointly controlled entities	1	12
Impairment loss on available-for-sale investments	–	558
Loss on disposals of interests in jointly controlled entities	4	6
Discount on acquisition of a subsidiary	(648)	–
Discount on deemed acquisition of interest in an associate	–	(85)
Share of results (excluding impairment loss) of jointly controlled entities	(302)	78
Share of impairment loss of jointly controlled entities	44	–
Share of results of associates	(101)	(350)
Interest income	(32)	(23)
Interest on bank loans and overdrafts and other borrowing costs	218	181
Imputed interest expense on convertible bonds issued by the Company	28	48
Interest income from investment in convertible bonds	(11)	(24)
Imputed interest income on loans to jointly controlled entities/associates	(48)	(54)
Dividend income from available-for-sale investments	(8)	(67)
Fair value changes on investment properties	(46)	(27)
Fair value changes on financial assets carried at fair value through profit or loss	–	(20)
Fair value changes on embedded derivatives	(1)	(236)
Depreciation on property, plant and equipment	14	7
Amortisation of prepaid lease payments	1	1
Net loss on disposal of property, plant and equipment	–	2
Gain on disposal of available-for-sale investments	–	(496)
Unrealised gain on income from associates/jointly controlled entities	15	3
Share-based payment expense	42	40
Discount on acquisition of a jointly controlled entity	–	(1)
Expenses in relation to defined benefit scheme	(4)	–
Operating cash flows before movements in working capital	4	137
Increase in inventories	(20)	–
Decrease in properties held for sale	17	1
Increase in properties under development for sale	(436)	(60)
Decrease (increase) in debtors, deposits and prepayments	138	(285)
Increase in amounts due from customers for contract work	(82)	(57)
Decrease (increase) in amounts due from related companies	7	(45)
Decrease in amounts due from associates	16	235
(Increase) decrease in amounts due from jointly controlled entities	(40)	22
Increase in defined benefit scheme assets	(3)	(14)
Increase in creditors and accrued charges	101	61
Increase in sales deposits received	312	–
(Decrease) increase in amounts due to customers for contract work	(9)	47
(Decrease) increase in amounts due to jointly controlled entities	(3)	93
Increase (decrease) in amounts due to associates	61	(73)
(Decrease) increase in amounts due to related companies	(2)	1
Increase in amounts due to non-controlling shareholders of subsidiaries	3	–
Cash generated from operations	64	63
Hong Kong Profits Tax paid	(15)	(9)
Hong Kong Profits Tax refunded	–	3
Income tax of other regions in the PRC paid	(16)	(4)
NET CASH FROM OPERATING ACTIVITIES	33	53

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	2009 HK\$ million	2008 HK\$ million
INVESTING ACTIVITIES		
Investments in jointly controlled entities	(54)	(566)
Advance to jointly controlled entities	(215)	(489)
Advance to an associate	–	(242)
Additions in property, plant and equipment	(28)	(31)
Additions in investment properties	(21)	–
Purchase of property, plant and equipment for disposal groups classified as held for sale	(238)	–
Dividends received from jointly controlled entities	29	67
Settlement of foreign exchange forward contracts	(39)	–
Proceeds from sales of available-for-sale investments	–	999
Proceeds from sales of financial assets carried at fair value through profit or loss	–	53
Interest received	32	27
Proceeds from sales of property, plant and equipment and leasehold land	2	–
Dividends received from available-for-sale investments	8	68
Net proceeds from disposal of a jointly controlled entity	33	9
Net cash inflow on acquisition of subsidiaries	488	–
Increase in restricted bank deposits	(299)	–
Decrease in pledged bank deposits	76	310
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(226)	205
FINANCING ACTIVITIES		
New bank loans raised	3,264	2,209
Increase in liabilities associated with assets held for sale	170	–
Repayment of loan from a related company	–	(100)
Net proceeds received on issue of shares	3	4
Redemption of convertible bonds issued by the Company	(458)	–
Repayments of bank loans	(1,663)	(1,740)
Interest paid	(195)	(165)
Other borrowing costs paid	(23)	(16)
Advance from jointly controlled entities	81	302
Other movements with non-controlling shareholders of subsidiaries	(2)	–
Dividends paid	(46)	(273)
Dividends paid to non-controlling shareholders of subsidiaries	(7)	(5)
NET CASH FROM FINANCING ACTIVITIES	1,124	216
NET INCREASE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	931	474
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	619	139
	1	6
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,551	619
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances, deposits and cash	1,545	617
Bank balances, deposits and cash included in assets classified as held for sale (note 32)	6	2
	1,551	619

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in Corporate Information in the annual report.

The principal activity of the Company is investment holding. Its subsidiaries, jointly controlled entities and associates are principally engaged in construction and contracting, renovation and fitting out, property development and investment, manufacturing and sales of cement, asset management and investment holding.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new or revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial period beginning on 1 January 2009.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendments to HKFRS 5 that are effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – INT 13	Customer Loyalty Programmes
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – INT 18	Transfers of Assets from Customers

New and revised HKFRSs affecting the financial performance and/or financial position

As part of improvements to HKFRSs (2008), HKAS 40 Investment Property has been amended to include within its scope properties under construction or development for future use as investment properties and to require such properties to be measured at fair value (where the fair value model is used and the fair values of the properties are reliably determinable). In prior years, the investment properties under construction were stated at cost less impairment loss. In accordance with the relevant transitional provisions, the new policy has been applied prospectively from 1 January 2009 (the Group did not have any investment properties under construction at 1 January 2009). As a result of the application of the amendment, the Group's investment properties under development, acquired through acquisition of subsidiaries during the year, have been measured at fair value at 31 December 2009, with the fair value gain of HK\$46 million and a deferred tax expense of HK\$12 million, recognised in profit or loss in the current year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

New and revised HKFRSs affecting presentation and disclosure only HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments but changed the basis of measurement of segment profit or loss, segment assets and segment liabilities (see note 7).

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments, which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not presented comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The application of the above new HKFRSs has had no material effect on the consolidated financial statements of the Group for the prior accounting periods. Accordingly, no prior period adjustment has been required.

3. POTENTIAL IMPACT ARISING ON THE NEW OR REVISED ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Classification of Right Issues ⁴
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ⁵
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ¹
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁷
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁶
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments ⁵

¹ Effective for annual periods beginning on or after 1 July 2009

² Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

³ Effective for annual periods beginning on or after 1 January 2010

⁴ Effective for annual periods beginning on or after 1 February 2010

⁵ Effective for annual periods beginning on or after 1 July 2010

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ Effective for annual periods beginning on or after 1 January 2013

3. POTENTIAL IMPACT ARISING ON THE NEW OR REVISED ACCOUNTING STANDARDS NOT YET EFFECTIVE (continued)

The application of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-company transactions and balances within the Group are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The non-controlling interest in the acquiree is initially measured at the non-controlling interests' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combinations achieved in stages are accounted for individually, and goodwill or discount, as appropriate, arising from the acquisition at each stage is determined using the cost of the acquisition and fair value of the net identifiable assets acquired at each stage. Any adjustments to the fair value of the net identifiable assets attributable to the previously held equity interest are recognised in other comprehensive income and included in reserves.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses and presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro/rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and jointly controlled entities

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Joint venture arrangements that involve the establishment of a separate entity in which the venturers have joint control over the economic activity of the entity are referred to as a jointly controlled entity.

The results and assets and liabilities of associates and jointly controlled entities are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations) or when the investment is designated at fair value through profit or loss upon initial recognition or is classified as held for trading (in which case it is accounted for under HKAS 39 Financial Instruments: Recognition and Measurement). Under the equity method, investments in associates and jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associates and the jointly controlled entities, less any identified impairment loss. When the Group's share of losses equals or exceeds its interest in the associate or the jointly controlled entity (which includes any long-term interest that, in substance, form part of the Group's net investment in the associate or jointly controlled entity), the Group discontinues recognising its share of further losses except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or jointly controlled entity. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate or a jointly controlled entity (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate or jointly controlled entity in the period in which the investment is acquired.

When a group entity transacts with an associate or a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the associate or the jointly controlled entity.

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the assets' (or disposal groups') previous carrying amount and fair value less costs to sell.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of properties

Revenue from the sale of properties in the ordinary course of business is recognised when all the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Payments received from purchasers prior to this stage are recorded as sales deposits received under current liabilities.

Others

Rental income from operating lease is recognised on a straight-line basis over the term of the relevant lease.

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the Group's right to receive the relevant payment has been established.

Interest income from a financial asset including financial assets at fair value through profit or loss is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Service income is recognised when services are provided.

Revenue from sale of goods is recognised when goods are delivered and title has passed.

Investment properties

Investment properties are properties (including properties under construction or development for future use as investment properties) held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model and stated at fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included as profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction. Starting from 1 January 2009, properties under construction or development for future use as investment properties are also measured at fair value at the balance sheet date. Any difference between the fair value of the investment properties under construction and their carrying amounts is recognised in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, if any, using the straight-line method. Both the useful life of an asset and its residual value, if any, are reviewed annually.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Club memberships

On initial recognition, club memberships are stated at cost. After initial recognition, club memberships with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Club memberships are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Properties held for sale

Properties held for sale are completed properties and are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all anticipated costs to be incurred in marketing and selling.

Properties under development for sale

Properties under development, which are intended to be held for sale, are measured at the lower of cost and net realisable value. Cost includes costs of land, development expenditure incurred, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to such properties. These assets are recorded as current assets as they are expected to be realised in, or are intended for sale within the Group's normal operating cycle. Net realisable value represents the estimated selling price less all anticipated costs of completion and costs to be incurred in marketing and selling. Upon completion, the assets are recorded as properties held for sale.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Construction and building maintenance contracts

Where the outcome of a construction and building maintenance contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction and building maintenance contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that probably will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under debtors, deposits and prepayments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Impairment of assets (other than goodwill, club memberships with indefinite useful life and financial assets)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised as profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included as profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in translation reserve. Such exchange differences are recognised as profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 April 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on acquisitions of foreign operations prior to 1 April 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Retirement benefits costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, which are defined contribution schemes, are charged as an expense when employees have rendered service entitling them to the contributions.

For the defined benefit retirement scheme, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. All actuarial gains and losses of defined benefit scheme are recognised immediately in other comprehensive income in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. All purchases or sales of financial assets in the regular way are recognised and derecognised on a trade date basis. Purchases or sales in the regular way are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Financial assets carried at fair value through profit or loss

The Group's financial assets at fair value through profit or loss comprise financial assets classified as held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade debtors, amounts due from jointly controlled entities, associates and related companies, the debt receivable portion of investment in convertible bonds, pledged bank deposits and bank balances, deposits and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see the accounting policy on impairment loss on financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale investments

Available-for-sale investments are non-derivatives that are neither designated nor classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in investment revaluation reserve is reclassified to profit or loss (see the accounting policy on impairment loss on financial assets below).

Investment in convertible bonds

The Group's investment in convertible bonds issued by CCP that contain both a debt receivable component and embedded derivatives is classified separately into respective components on initial recognition that are recognised initially at fair value. In subsequent periods, the debt receivable component of the convertible bonds is carried at amortised cost using the effective interest method. The embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the acquisition of the convertible bonds are allocated to the debt receivable and embedded derivatives components in proportion to the allocation of the proceeds. Transaction costs relating to the embedded derivatives are charged to profit or loss immediately. Transaction costs relating to the debt receivable component are included in the carrying amount of the debt receivable portion and amortised over the period of the convertible bonds using the effective interest method.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for any impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade debtors, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

The carrying amounts of financial assets are reduced by impairment directly except for trade debtors, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Convertible bonds

Convertible bonds issued by the Group that contain both liability and conversion option components are classified separately into the respective components on initial recognition. A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Borrowings

Bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Other financial liabilities

Other financial liabilities (including creditors, amounts due to jointly controlled entities, associates and related companies and non-controlling shareholders of subsidiaries) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derivatives (including embedded derivatives, which are separated from non-derivatives host contracts) that do not qualify for hedge accounting are deemed as financial assets/financial liabilities held for trading and are measured at fair value except for derivative instruments, which are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured and such derivative instruments are stated at cost less impairment, if applicable.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, for share options, which are conditional upon satisfying specified non-market performance vesting conditions, the Group revises its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share option reserve.

At the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 key estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Construction contracts

The Group recognises contract revenue and profit on a construction contract according to the management's estimation of the total outcome of the project as well as the percentage of completion of construction works. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimations and this will affect the revenue and profit recognised.

Investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have used a method of valuation, which involves certain estimates of market condition. In relying on the valuation report, the Directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated income statement.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Determination of net realisable value of properties under development for sale and properties held for sale

Properties under development for sale and properties held for sale are stated at the lower of cost and net realisable value. The net realisable value is the estimated selling price (based on the direct comparison method) less estimated selling expenses and estimated cost of completion (if any), which are determined based on best available information and valuation performed by independent professional valuers. Where there is any decrease in the estimated selling price arising from any changes to the property market conditions in the PRC, the loss will be recognised on the properties under development for sale and properties held for sale in the consolidated income statement.

Impairment of other assets

The Group reviews the carrying amounts of its assets at each balance sheet date to determine whether there is any indication that those assets have suffered an impairment loss. Management has exercised judgement to estimate the future cash flows expected to be derived from the assets and ascertain their recoverable amounts. Where the recoverable amount of an asset is estimated to be less than its carrying amount, an impairment loss will be provided for such asset and recognised in the consolidated income statement.

6. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, investment in convertible bonds, debtors, amounts due from jointly controlled entities, associates and related companies, restricted bank deposits, pledged bank deposits, bank balances, creditors, amounts due to jointly controlled entities, associates, related companies and non-controlling shareholders of subsidiaries, bank borrowings and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Categories of financial instruments

	2009 HK\$ million	2008 HK\$ million
Financial assets		
Available-for-sale investments	2,004	970
Loans and receivables (including cash and cash equivalents)	4,829	3,218
Derivative financial instruments	–	13
Financial liabilities		
Amortised cost	7,975	5,870
Derivative financial instruments	–	1

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(a) Market risk

The Group is exposed primarily to the financial risks of changes in interest rates, foreign currency exchange rates and equity prices. There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk. Details of each type of market risk are described as follows:

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and variable-rate borrowings. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk but would consider doing so in respect of significant exposure should the need arise.

The Group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of People's Bank of China ("PBOC") Prescribed Interest Rate and Hong Kong Interbank Offer Rate ("HIBOR") arising from the Group's Renminbi and Hong Kong dollars denominated borrowings.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to cash flow interest rate risk for variable-rate borrowings. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. An increase or decrease of 100 basis points (2008: 100 basis points) is used when reporting the interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates.

At the balance sheet date, if interest rates had been increased/decreased by 100 basis points (2008: 100 basis points) and all other variables were held constant, the Group's profit would decrease/increase by approximately HK\$67 million for the year ended 31 December 2009 (2008: HK\$45 million).

(ii) Foreign currency risk

Most of the Group's assets and liabilities are denominated in Hong Kong dollars or Renminbi, which are the same as the functional currency of the relevant group entities. The Group has certain bank balances and cash, current accounts with jointly controlled entities and borrowings, which are denominated in foreign currencies and hence exposure to exchange rate fluctuations arises. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities are as follows:

	2009 HK\$ million	2008 HK\$ million
Assets		
United States dollars	609	658
Renminbi	-	313
Hong Kong dollars	36	-
Liabilities		
United States dollars	-	233
Renminbi	-	41
Hong Kong dollars	233	-

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(a) Market risk (continued)

(ii) Foreign currency risk (continued)

Foreign currency sensitivity

The Group's foreign currency risk is mainly concentrated on the fluctuation among Renminbi, United States dollars and Hong Kong dollars. The sensitivity analysis does not include those United States dollars denominated assets and liabilities when they are held by group entities having Hong Kong dollars as their functional currency since the exchange rates between United States dollars and Hong Kong dollars are pegged. The following table details the Group's sensitivity to a 7% (2008: 7%) increase or decrease in the functional currencies of the relevant group entities against foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 7% (2008: 7%) change in foreign currency rates. A positive number indicates an increase in profit for the year where the foreign currencies strengthen against the functional currencies of the relevant group entities. For a 7% (2008: 7%) weakening of the foreign currencies against the functional currencies of the relevant group entities, there would be an equal and opposite impact on the profit and the balances below would be negative.

	2009 HK\$ million	2008 HK\$ million
Renminbi	–	19
United States dollars	13	–
Hong Kong dollars	(14)	–

(iii) Other price risk

The Group is exposed to equity price risk through its available-for-sale investments. If the market price of the investments had been increased/decreased by 20% (2008: 20%), the Group's reserve at 31 December 2009 would increase/decrease by approximately HK\$401 million (2008: the Group's profit would increase/decrease by approximately HK\$194 million).

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet and the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 44. In order to minimise credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the credit risk is significantly reduced.

The Group has certain concentration of credit risk in respect of amounts due from jointly controlled entities and debtors, deposits and prepayments. At 31 December 2009, 56% (2008: 37%) of total amounts due from jointly controlled entities and 24% (2008: Nil) of total debtors, deposits and prepayments was due from one single jointly controlled entity and customer respectively. Except for the above, the Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds should be limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies or state-owned banks in the PRC.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

With respect to credit risk arising from amounts due from jointly controlled entities and associates, the Group's exposure to credit risk arising from default of the counterparty is limited as the counterparty has sufficient net assets to repay its debts and a good history of repayment. The Group does not expect to incur a significant loss for uncollected amounts due from these jointly controlled entities and associates.

(c) Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt to equity ratio. There has been no change in the Group's exposure to capital risk or the manner in which it manages and measures the risk.

The capital structure of the Group consists of debt, which includes borrowings and convertible bonds issued, and equity attributable to the owners of the Company, comprising issued share capital, reserves and retained profits. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Directors of the Company review the capital structure periodically. As a part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will adjust its overall capital structure through the issue of new shares, new debt or the redemption of existing debt.

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(d) Liquidity risk (continued)

The following table details the Group's contractual maturity for its non-derivative financial liabilities as well as certain non-derivative financial assets. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. For non-derivative financial assets, the table reflects the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The table includes both interest and principal cash flows.

	Weighted average effective interest rate % p.a.	Less than 3 months HK\$ million	3 months to 1 year HK\$ million	1-2 years HK\$ million	2-3 years HK\$ million	undiscounted cash flow HK\$ million	Total Carrying amount HK\$ million
At 31 December 2009							
Bank deposits	0.79%	599	–	–	–	599	598
Trade and other payables	–	(1,130)	(138)	(67)	–	(1,335)	(1,335)
Borrowings (variable rate)	4.08%	(1,309)	(3,856)	(984)	(744)	(6,893)	(6,640)
		(1,840)	(3,994)	(1,051)	(744)	(7,629)	(7,377)
At 31 December 2008							
Bank deposits	1.46%	371	76	–	–	447	445
Trade and other payables	–	(765)	(93)	(64)	–	(922)	(922)
Borrowings (variable rate)	3.31%	(952)	(2,598)	(357)	(757)	(4,664)	(4,518)
Convertible bonds (fixed rate)	12.50%	–	(458)	–	–	(458)	(430)
		(1,346)	(3,073)	(421)	(757)	(5,597)	(5,425)

In addition, as disclosed in note 44, at the balance sheet date, the Group has provided financial guarantees to banks in respect of banking facilities granted to various parties. In the event of the failure of those parties to meet their obligations under these facilities, the Group may be required to pay up to the guaranteed amounts to the banks upon demand. Management does not consider that it is probable that for the banks to claim the Group under these guarantees.

(e) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.
- The fair value of derivative instruments is calculated using quoted market prices. Where such prices are not available, fair value is estimated using discounted cash flow analysis based on the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Directors of the Company consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(e) Fair value of financial instruments (continued)

Fair value measurements recognised in the consolidated balance sheet

At 31 December 2009, the only financial instrument of the Group that was measured subsequent to initial recognition at fair value is available-for-sale investments, of which the fair value was derived from quoted prices (unadjusted) in active markets.

7. TURNOVER AND SEGMENT INFORMATION

Revenue of the Group represents the contract revenue and service income arising on construction contracts and building maintenance, amounts received and receivable for goods sold by the Group (less returns and allowances), revenue from sale of properties, fees from asset management and rental and leasing income for the year.

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. As the Group has always been reporting segment information based on financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. The major changes of segment presentation upon application of HKFRS 8 are in relation to measurement of segment results, segment assets and segment liabilities. Segment information for prior year has been restated for conformity with current year presentation under HKFRS 8. The major changes are analysed as follows:

- (i) Segment results under HKFRS 8 represent the profits earned by each segment without allocating the financial impact of convertible bonds issued by the Company, interest on borrowings, other income and corporate administrative expenses. Previously under HKAS 14, the financial impact of available-for-sale investments, associates, jointly controlled entities and investment properties, and gain/loss on disposal of investments were also excluded from the measurement of segment results.
- (ii) Previously under HKAS 14, items such as interests in and amounts due from associates and jointly controlled entities, investment in convertible bonds, available-for-sale investments and assets classified as held for sale were excluded from the measurement of segment assets. Segment assets under HKFRS 8 now represent substantially all of these assets allocated to each segment and include inter-segment receivable.
- (iii) Previously under HKAS 14, items such as amounts due to associates and jointly controlled entities, liabilities associated with assets classified as held for sale and tax liabilities were excluded from the measurement of segment liabilities. Segment liabilities under HKFRS 8 now include all liabilities other than corporate borrowings, taxation payable and deferred tax liabilities.

For management reporting purposes, the Group is currently organised into four operating divisions – construction and building maintenance, cement operations, property and others. Following the privatisation of the Group's 42.88% owned CCP (as defined hereinafter) in June 2009, the asset management operation, which was previously grouped under the "Asset management and others" segment, has been included under the "Property" segment. This redesignation of the Group's reportable segment better reflects the Group's current business activities. Segment information for prior year has been restated to conform with the current year's presentation. These divisions are the basis on which the Group reports to its chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

7. TURNOVER AND SEGMENT INFORMATION (continued)

(a) Reportable segment revenue and profit or loss

An analysis of the Group's reportable segment revenue and segment profit before taxation by operating segment is as follows:

For the year ended 31 December 2009

	Cement operations					Total HK\$ million
	Construction and building maintenance HK\$ million	Through LSOC [#] HK\$ million	Other cement operations HK\$ million	Property HK\$ million	Others HK\$ million	
REVENUE						
External sales of goods	–	–	–	19	7	26
External revenue from rendering of services	–	–	–	108	1	109
Construction contract revenue	3,065	–	–	–	–	3,065
Revenue from external customers	3,065	–	–	127	8	3,200
Inter-segment revenue	231	–	–	–	–	231
	3,296	–	–	127	8	3,431
Share of jointly controlled entities	3	2,745	446	–	–	3,194
Share of associates	–	–	–	3	–	3
Total segment revenue	3,299	2,745	446	130	8	6,628

Inter-segment revenue is charged at mutually agreed prices.

LSOC denotes Lafarge Shui On Cement Limited, a jointly controlled entity of the Group.

RESULTS	69	8	(3)	(69)	(9)	(4)
Operating results	2	–	1	27	–	30
Interest income	–	–	–	11	–	11
Interest income from investment in convertible bonds	–	–	–	48	–	48
Imputed interest income on loans to jointly controlled entities/associates	–	–	–	46	–	46
Fair value changes on investment properties	–	–	–	–	–	–
Impairment loss on properties held for sale/ properties under development for sale	–	–	–	(10)	–	(10)
Dividend income from available-for-sale investments	–	–	–	8	–	8
Impairment loss recognised in respect of interests in jointly controlled entities	–	–	(1)	–	–	(1)
Loss on disposals of interests in jointly controlled entities	–	–	(3)	(1)	–	(4)
Discount on acquisition of a subsidiary	–	–	–	648	–	648
Share of results (excluding impairment loss) of jointly controlled entities	–	–	–	–	–	–
Cement operations in						
– LSOC	–	309	–	–	–	309
– Guizhou	–	–	24	–	–	24
Venture capital investments	–	–	–	–	10	10
Imputed interest expense	–	–	–	(35)	–	(35)
Others	(6)	–	–	–	–	(6)
Share of impairment loss of jointly controlled entities	–	(44)	–	–	–	(44)
Share of results of associates						
Distressed asset development	–	–	–	85	–	85
Greenfield development	–	–	–	29	–	29
Imputed interest expense	–	–	–	(13)	–	(13)
Reportable segment profit before taxation	65	273	18	774	1	1,131

7. TURNOVER AND SEGMENT INFORMATION (continued)

(a) Reportable segment revenue and profit or loss (continued)

For the year ended 31 December 2008

	Cement operations						Total HK\$ million
	Construction and building maintenance HK\$ million	Through LSOC HK\$ million	Other cement operations HK\$ million	Property HK\$ million	Others HK\$ million		
REVENUE							
External sales of goods	–	–	–	–	25	25	
External revenue from rendering of services	–	–	–	188	2	190	
Construction contract revenue	2,729	–	–	–	–	–	2,729
Revenue from external customers	2,729	–	–	188	27	2,944	
Inter-segment revenue	6	–	–	–	–	–	6
	2,735	–	–	188	27	2,950	
Share of jointly controlled entities	7	2,105	474	–	14	2,600	
Share of associates	–	–	–	1,089	–	1,089	
Total segment revenue	2,742	2,105	474	1,277	41	6,639	
Inter-segment revenue is charged at mutually agreed prices.							
RESULTS							
Operating results	83	8	(7)	30	(14)	100	
Interest income	3	–	5	–	7	15	
Interest income from investment in convertible bonds	–	–	–	24	–	24	
Imputed interest income on loans to jointly controlled entities/associates	–	–	–	54	–	54	
Fair value changes on embedded derivatives	–	–	–	(3)	–	(3)	
Dividend income from available-for-sale investments	–	–	–	67	–	67	
Fair value change on an investment property	–	–	–	27	–	27	
Impairment loss on interests in jointly controlled entities	–	–	(12)	–	–	(12)	
Impairment loss on available-for-sale investments	–	–	–	(558)	–	(558)	
Fair value changes on financial assets carried at fair value through profit or loss	–	–	–	–	20	20	
Loss on disposal of a jointly controlled entity	–	–	(6)	–	–	(6)	
Discount on deemed acquisition of interest in an associate	–	–	–	85	–	85	
Gain on disposal of available-for-sale investments	–	–	–	496	–	496	
Share of results of jointly controlled entities							
Cement operations in							
– LSOC	–	133	–	–	–	133	
– Guizhou	–	–	33	–	–	33	
Venture capital investments	–	–	–	–	(233)	(233)	
Greenfield development	–	–	–	16	–	16	
Imputed interest expense	–	–	–	(23)	–	(23)	
Others	(3)	–	–	–	(1)	(4)	
						(78)	
Share of results of associates							
Distressed asset development	–	–	–	108	–	108	
Greenfield development	–	–	–	273	–	273	
Imputed interest expense	–	–	–	(31)	–	(31)	
						350	
Reportable segment profit (loss) before taxation	83	141	13	565	(221)	581	

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For the year ended 31 December 2009

7. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Reportable segment assets and liabilities

An analysis of the Group's reportable segment assets and liabilities by operating segment is as follows:

At 31 December 2009

	Cement operations						Total HK\$ million
	Construction and building maintenance HK\$ million	Through LSOC HK\$ million	Other cement operations HK\$ million	Property HK\$ million	Others HK\$ million		
Reportable segment assets	1,427	3,726	1,344	11,832	956		19,285
Reportable segment liabilities	1,103	328	832	1,660	148		4,071

At 31 December 2008

	Cement operations						Total HK\$ million
	Construction and building maintenance HK\$ million	Through LSOC HK\$ million	Other cement operations HK\$ million	Property HK\$ million	Others HK\$ million		
Reportable segment assets	1,292	3,399	1,095	5,274	1,081		12,141
Reportable segment liabilities	937	302	550	52	201		2,042

(c) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

	Year ended 31 December	
	2009 HK\$ million	2008 HK\$ million
Revenue		
Reportable segment revenue	6,628	6,639
Elimination of inter-segment revenue	(231)	(6)
Elimination of share of revenue of jointly controlled entities	(3,194)	(2,600)
Elimination of share of revenue of associates	(3)	(1,089)
Consolidated turnover	3,200	2,944

7. TURNOVER AND SEGMENT INFORMATION (continued)

(c) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities (continued)

	Year ended 31 December	
	2009 HK\$ million	2008 HK\$ million
Profit before taxation		
Reportable segment profit before taxation	1,131	581
Other income	27	8
Convertible bonds issued by the Company		
– Fair value changes on embedded derivatives	1	239
– Imputed interest expense	(28)	(48)
Interest on bank loans and overdrafts and other borrowing costs	(218)	(181)
Other unallocated corporate expenses	(85)	(15)
Consolidated profit before taxation	828	584
At 31 December		
	2009 HK\$ million	2008 HK\$ million
Assets		
Reportable segment assets	19,285	12,141
Elimination of inter-segment receivables	(647)	(605)
Other unallocated assets	3	–
Consolidated total assets	18,641	11,536
At 31 December		
	2009 HK\$ million	2008 HK\$ million
Liabilities		
Reportable segment liabilities	4,071	2,042
Elimination of inter-segment payables	(647)	(605)
Unallocated liabilities		
– Bank borrowings	5,733	4,518
– Others	436	527
Consolidated total liabilities	9,593	6,482

7. TURNOVER AND SEGMENT INFORMATION (continued)

(d) Other segment information

At 31 December 2009

	Construction and building maintenance HK\$ million	Cement operations					Total HK\$ million
		Through LSOC HK\$ million		Other cement operations HK\$ million	Property HK\$ million	Others HK\$ million	
		Construction and building maintenance HK\$ million	Through LSOC HK\$ million	Other cement operations HK\$ million	Property HK\$ million	Others HK\$ million	
Interests in jointly controlled entities and associates	(20)	3,723		178	486	230	4,597
Capital expenditure	5	–		–	43	1	49
Depreciation and amortisation	4	–		–	9	2	15
Tax charge	13	–		–	2	1	16

At 31 December 2008

	Construction and building maintenance HK\$ million	Cement operations					Total HK\$ million
		Through LSOC HK\$ million		Other cement operations HK\$ million	Property HK\$ million	Others HK\$ million	
		Construction and building maintenance HK\$ million	Through LSOC HK\$ million	Other cement operations HK\$ million	Property HK\$ million	Others HK\$ million	
Interests in jointly controlled entities and associates	(14)	3,394		189	2,548	216	6,333
Capital expenditure	2	–		18	10	1	31
Depreciation and amortisation	3	–		1	2	2	8
Tax charge	13	–		–	2	–	15

(e) Geographical information

The Group operates in two principal geographical areas – Hong Kong and the PRC (excluding Hong Kong). The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers*		Non-current assets**	
	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million
Hong Kong	2,357	1,918	21	23
PRC (excluding Hong Kong)	843	1,026	704	51
	3,200	2,944	725	74

* Revenue from external customers is attributed to countries on the basis of the customers' location.

** Non-current assets exclude available-for-sale investments, investment in convertible bonds, interests in associates and jointly controlled entities, and amounts due from associates and jointly controlled entities.

7. TURNOVER AND SEGMENT INFORMATION (continued)

(f) Information about major customers

Included in revenue arising from construction and building maintenance of HK\$3,065 million (2008: HK\$2,729 million) is revenue of HK\$1,021 million and HK\$828 million, which arose from services provided to the Group's largest and second largest customers respectively (2008: HK\$1,125 million and HK\$333 million from the Group's largest and second largest customers respectively) contributing over 10% of the total turnover of the Group.

8. OTHER INCOME

	2009 HK\$ million	2008 HK\$ million
Included in other income are:		
Interest income	32	23
Interest income from investment in convertible bonds	11	24
Imputed interest income on loans to jointly controlled entities/associates	48	54

9. FAIR VALUE CHANGES ON EMBEDDED DERIVATIVES

	2009 HK\$ million	2008 HK\$ million
Changes in fair values of embedded derivatives in:		
– Convertible bonds issued by CCP (note 23)	–	(3)
– Convertible bonds issued by the Company (note 34)	1	239
Net gain recognised	1	236

10. FINANCE COSTS

	2009 HK\$ million	2008 HK\$ million
Interest on bank loans and overdrafts and other loans wholly repayable within 5 years	210	165
Other borrowing costs	23	16
Less: amounts capitalised to properties under development	(15)	–
	218	181
Imputed interest expense on convertible bonds issued by the Company (note 34)	28	48
	246	229

11. DISCOUNT ON ACQUISITION OF A SUBSIDIARY

In May 2009, the Company made an offer to acquire the remaining 57.12% shareholding in China Central Properties Limited ("CCP"), which was listed on the Alternative Investment Market of the London Stock Exchange plc ("AIM") and a 42.88% associate of the Group. The offer was declared unconditional in all respects on 10 June 2009. Following completion of the acquisition, CCP has become a wholly-owned subsidiary of the Group. At 31 December 2009, the assets and liabilities of CCP were consolidated into the Group's consolidated balance sheet.

The Directors of the Company have reassessed the identification and measurement of fair values of CCP's identifiable assets, liabilities and contingent liabilities and the cost of acquisition. The net fair value of the identifiable assets, liabilities and contingent liabilities of CCP attributable to the 57.12% shareholding acquired by the Company exceeded the cost of acquisition by an amount of HK\$648 million, which represented a discount on acquisition of CCP, and has been recognised in the consolidated income statement for the year ended 31 December 2009.

The Directors of the Company, after the reassessment, consider that the discount on acquisition was due to the fact that the cost of acquisition was favourable compared to the net fair value of the identifiable assets, liabilities and contingent liabilities of CCP attributable to the 57.12% shareholding acquired by the Company. Given the relatively low liquidity and the adverse trading performance of CCP shares since admission to trading on AIM in June 2007, the offer price represented a considerable discount to the net asset value per share of CCP but also contained a significant premium over CCP's share prices prior to the announcement of the Company's offer. The acquisition was effected in June 2009. Further details of the net assets acquired in this transaction are disclosed in note 42. Details of the transaction are set out in a circular of the Company dated 15 May 2009.

12. TAXATION

	2009 HK\$ million	2008 HK\$ million
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	10	10
PRC Enterprise Income Tax	9	5
PRC Land Appreciation Tax	11	–
Deferred taxation (note 38)	30 (14)	15 –
	16	15

Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) on the estimated assessable profits for the year.

PRC Enterprise Income Tax is calculated at 25% (2008: 25%) on the estimated assessable profits for the year.

PRC Land Appreciation Tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditure including amortisation of land use rights, borrowing costs, business taxes and all property development expenditure. The tax is incurred upon transfer of property ownership.

Details of the deferred taxation are set out in note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

12. TAXATION (continued)

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2009 HK\$ million	2008 HK\$ million
Profit before taxation	828	584
Tax at Hong Kong Profits Tax rate of 16.5% (2008: 16.5%)	137	96
Effect of share of results of jointly controlled entities	(43)	13
Effect of share of results of associates	(17)	(58)
Effect of different tax rates on operations in other jurisdictions	(5)	–
PRC Land Appreciation Tax	11	–
Tax effect of PRC Land Appreciation Tax	(2)	–
Tax effect of expenses not deductible for tax purposes	79	128
Tax effect of income not taxable for tax purposes	(160)	(162)
Tax effect of tax losses not recognised	31	3
Tax effect of utilisation of tax losses previously not recognised	(17)	(4)
Others	2	(1)
 Tax charge for the year	 16	 15

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

The emoluments paid or payable to each of the eleven (2008: ten) Directors were as follows:

Name of Directors	Notes	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefit scheme contributions HK\$'000			Share- based payments HK\$'000	2009 Total HK\$'000	2008 Total HK\$'000
				Bonuses* HK\$'000	2009 Total HK\$'000	2008 Total HK\$'000			
Mr. Lo Hong Sui, Vincent		10	–	–	–	–	–	10	10
Mr. Choi Yuk Keung, Lawrence		10	3,441	1,744	61	3,213	8,469	7,966	
Mr. Wong Yuet Leung, Frankie		10	5,549	4,200	27	7,540	17,326	19,042	
Mr. Wong Kun To, Philip	(a)	5	1,882	–	81	1,944	3,912	–	
Mr. Wong Fook Lam, Raymond	(a)	5	1,584	–	27	535	2,151	–	
Professor Michael Enright	(b)	350	–	–	–	–	350	350	
Mr. Anthony Griffiths	(c)	440	–	–	–	–	440	440	
Mr. Gerrit de Nys	(c)	350	–	–	–	–	350	350	
Ms. Li Hoi Lun, Helen	(c) & (d)	350	–	–	–	–	350	120	
Mrs. Lowe Hoh Wai Wan, Vivien	(e)	9	2,118	2,635	32	(590)	4,204	5,559	
Ms. Lau Jeny	(f)	4	1,452	2,165	58	(657)	3,022	4,197	
Mr. Cheng Mo Chi, Moses	(g)	–	–	–	–	–	–	144	
 Total		 1,543	 16,026	 10,744	 286	 11,985	 40,584	 38,178	
 Year ended 31 December 2008		 1,454	 14,165	 10,561	 299	 11,699	 38,178		

* The bonuses are discretionary and are determined by reference to the Company's and the Directors' personal performances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

(continued)

Notes:

- (a) Mr. Wong Kun To, Philip and Mr. Wong Fook Lam, Raymond were appointed as Executive Directors on 1 July 2009.
- (b) Non-executive Director.
- (c) Independent Non-executive Directors.
- (d) Ms. Li Hoi Lun, Helen was appointed as an Independent Non-executive Director on 28 August 2008.
- (e) Mrs. Lowe Hoh Wai Wan, Vivien retired on 1 December 2009.
- (f) Ms. Lau Jeny resigned as an Executive Director on 1 June 2009.
- (g) Mr. Cheng Mo Chi, Moses retired as an Independent Non-executive Director at the annual general meeting of the Company held on 29 May 2008.

Three (2008: two) out of the five highest paid individuals in the Group are Directors of the Company (whose emoluments are set out above), one of whom was previously an employee and was appointed as an Executive Director of the Company during the year. His emoluments before his appointment as an Executive Director were as follows:

	2009 HK\$ million
Salaries, bonuses and allowances	4
Retirement benefits scheme contributions	–
Share-based payments	2
	6

The emoluments of the remaining two (2008: three) highest paid employees were as follows:

	2009 HK\$ million	2008 HK\$ million
Salaries, bonuses and allowances	13	13
Retirement benefits scheme contributions	–	–
Share-based payments	4	7
	17	20

Their emoluments were within the following bands:

	2009 No. of employees	2008 No. of employees
HK\$6,000,001 to HK\$6,500,000	–	2
HK\$7,500,001 to HK\$8,000,000	–	1
HK\$8,000,001 to HK\$8,500,000	2	–
	2	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. PROFIT FOR THE YEAR

	2009 HK\$ million	2008 HK\$ million
Profit for the year has been arrived at after charging (crediting):		
Depreciation and amortisation:		
Prepaid lease payments	1	1
Property, plant and equipment	15	7
Less: amounts capitalised to properties under development	(1)	–
	15	8
Auditors' remuneration	5	4
Operating lease payments in respect of rented premises	13	8
Net loss on disposal of property, plant and equipment	–	2
Cost of properties sold	9	–
Impairment loss on properties under development for sale/properties held for sale	10	–
Staff costs (including directors' emoluments):		
Salaries, bonuses and allowances	443	381
Retirement benefits cost	5	(4)
Share-based payment expense	42	40
Less: amounts capitalised to properties under development	(5)	–
	485	417
Gross rental revenue from an investment property and car park spaces	(1)	(1)
Less: direct expenses from investment properties that generated rental income	1	1
Net rental income	–	–
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	81	3
Share of tax of associates (included in share of results of associates)	16	135

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

15. DIVIDENDS

	2009 HK\$ million	2008 HK\$ million
Payable:		
Final dividend in respect of the year ended 31 December 2007: HK\$0.65 per share	–	209
Interim dividend in respect of the year ended 31 December 2009: HK\$0.10 per share (2008: HK\$0.20 per share)	49	64
	49	273
Proposed:		
Final dividend in respect of the year ended 31 December 2009: HK\$0.25 per share	122	–

The final dividend in respect of the year ended 31 December 2009 of HK\$0.25 per share has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2008.

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2009 HK\$ million	2008 HK\$ million
Earnings:		
Earnings for the purpose of basic earnings per share	807	562
Effect of dilutive potential ordinary shares from convertible bonds issued by the Company:		
Imputed interest expense	28	48
Fair value changes on embedded derivatives	(1)	(239)
Effect of dilutive potential ordinary shares of CCP:		
Interest income on convertible bonds	(11)	–
Loss on early cancellation of convertible bonds	44	–
Adjustment to the share of results of CCP based on dilution of its earnings per share	(83)	–
Earnings for the purpose of diluted earnings per share	784	371
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	411	322
Effect of dilutive potential ordinary shares:		
Convertible bonds issued by the Company	15	22
Share options	–	1
Weighted average number of ordinary shares for the purpose of diluted earnings per share	426	345
Earnings per share:		
Basic	1.96	1.75
Diluted	1.84	1.08

The dilutive effect on the Group's earnings and number of ordinary shares arising from the convertible bonds issued by the Company and the convertible bonds issued by CCP held by the Group have been accounted for in the calculation of diluted earnings per share. These convertible bonds are assumed to be converted into shares of the relevant issuer at the beginning of the year and, in particular, the accounting effects of such financial instruments are reversed in the determination of diluted earnings per share if their conversion has a dilutive effect on the earnings per share.

The outstanding convertible bonds issued by the Company were fully redeemed in cash upon maturity on 31 July 2009 with no issue of the Company's shares. The computation of diluted earnings per share for the year ended 31 December 2009, which assumes full conversion of these bonds into the Company's shares at the beginning of the year, is prepared in accordance with the requirements of relevant accounting standard. In the opinion of the Directors of the Company, such computation may not be most relevant to the readers of these consolidated financial statements.

The computation of diluted earnings per share for the year ended 31 December 2008 did not assume the conversion of outstanding convertible bonds issued by CCP, since their conversion would result in an increase in earnings per share for that year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. INVESTMENT PROPERTIES

	2009 HK\$ million	2008 HK\$ million
FAIR VALUE		
At the beginning of the year	—	93
Exchange adjustments	—	6
Acquisition of subsidiaries (notes 42 and 43)	555	—
Additions	21	—
Increase in fair value recognised	46	27
Transfer to properties under development for sale	—	(126)
 At the end of the year	622	—

The investment properties are all situated in the PRC under medium-term leases. The amount at 31 December 2009 represents the portion of investment properties under construction in residential and commercial complexes. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties under construction at 31 December 2009 has been arrived at on the basis of valuations carried out on that date by Savills Valuation and Professional Services Limited, an independent qualified professional valuer not connected to the Group that has appropriate qualifications and recent experience in the valuation of similar properties in relevant locations. The valuation has been arrived at using the capitalisation of net income derived from the properties located nearby, taking into account the construction costs that would be expended to complete the development to reflect the quality of the completed development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. PROPERTY, PLANT AND EQUIPMENT

	Properties in Hong Kong HK\$ million	Properties in other regions of the PRC HK\$ million	Plant and machinery HK\$ million	Motor vehicles HK\$ million	Equipment, furniture and other assets HK\$ million	Total HK\$ million
AT COST						
At 1 January 2008	4	2	50	19	43	118
Exchange adjustments	–	1	–	–	–	1
Additions	–	–	19	1	11	31
Disposals	–	–	(2)	(1)	(4)	(7)
Reclassified as held for sale	–	–	(18)	–	–	(18)
At 31 December 2008	4	3	49	19	50	125
Additions	–	18	1	5	4	28
Acquisition of CCP	–	–	–	5	17	22
Disposals	–	–	–	(2)	(1)	(3)
Reclassified as held for sale	–	(3)	(1)	–	–	(4)
At 31 December 2009	4	18	49	27	70	168
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2008	1	1	48	11	33	94
Charge for the year	–	–	–	3	4	7
Eliminated on disposals	–	–	(1)	(2)	(2)	(5)
At 31 December 2008	1	1	47	12	35	96
Charge for the year	–	3	–	4	8	15
Reclassified as held for sale	–	(1)	–	–	–	(1)
Eliminated on disposals	–	–	–	(1)	–	(1)
At 31 December 2009	1	3	47	15	43	109
CARRYING VALUES						
At 31 December 2009	3	15	2	12	27	59
At 31 December 2008	3	2	2	7	15	29

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Properties in Hong Kong and other regions of the PRC (all are buildings located on land held under medium-term leases)	2.5% or remaining lease term, if shorter
Plant and machinery	10 – 25%
Motor vehicles, equipment, furniture and other assets	20 – 50%

19. PREPAID LEASE PAYMENTS

	2009 HK\$ million	2008 HK\$ million
Leasehold land under medium-term lease:		
In Hong Kong	3	3
Outside Hong Kong	41	42
	44	45
Analysed for reporting purposes as:		
Non-current	43	44
Current	1	1
	44	45

Amortisation of prepaid lease payments amounting to HK\$1 million (2008: HK\$1 million) was charged to the consolidated income statement.

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2009 HK\$ million	2008 HK\$ million
Cost of unlisted investments in jointly controlled entities, net of impairment	3,750	3,641
Share of post-acquisition profits and reserves	596	340
Less: Assets held for sale (note 32)	(81)	(78)
	4,265	3,903

Note:

Goodwill of HK\$122 million (2008: HK\$122 million) is included in the cost of unlisted investments in jointly controlled entities. The goodwill arose from the contribution to a jointly controlled entity, Lafarge Shui On Cement Limited ("LSOC"), during the year ended 31 March 2006.

Particulars of the principal jointly controlled entities are set out in note 48.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The summarised financial information in respect of the assets, liabilities, income and expenses of jointly controlled entities at and for each of the years ended 31 December 2009 and 31 December 2008 attributable to the Group's interest is as follows:

	2009 HK\$ million	2008 HK\$ million
Current assets	4,093	3,055
Non-current assets	7,885	7,958
Current liabilities	(3,335)	(5,487)
Non-current liabilities	(3,642)	(950)
Non-controlling interests	(929)	(747)
Income	4,539	3,993
Expenses	(4,281)	(4,071)

The summary of aggregate financial information of the Group's significant jointly controlled entities, including LSOC, engaged in the manufacture and sale of cement, based on the adjusted financial statements prepared under the HKFRSs for the years ended 31 December 2009 and 31 December 2008, is as follows:

	2009 HK\$ million	2008 HK\$ million
Results for the year ended 31 December		
Turnover	8,796	6,860
Profit before taxation	797	322
Profit before taxation attributable to the Group	289	169

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

	2009 HK\$ million	2008 HK\$ million
Financial position at 31 December		
Non-current assets	16,900	15,162
Current assets	5,325	6,177
Current liabilities	(6,635)	(9,651)
Non-current liabilities	(4,951)	(2,009)
Non-controlling interests	(1,970)	(1,572)
Net assets	8,669	8,107
Net assets attributable to the Group	3,982	3,656
Reclassified as assets held for sale (note 32)	(81)	(78)
	3,901	3,578

The Group provided HK\$1 million impairment loss in respect of its investment in the cement operation in Nanjing, to write down the Group's interests in this jointly controlled entity to its estimated recoverable amount at 31 December 2009, on the basis of management's estimation of the net realisable value of the net assets of this jointly controlled entity attributable to the Group.

The Group has discontinued recognition of its share of loss of a jointly controlled entity in Nanjing because the Group's share of losses of this jointly controlled entity in previous years has exceeded its investment cost. The amounts of the unrecognised share of losses of the jointly controlled entity, both for the year and cumulatively, are as follows:

	2009 HK\$ million	2008 HK\$ million
Unrecognised share of losses of the jointly controlled entity for the year ended 31 December	(8)	(7)
Accumulated unrecognised share of losses of the jointly controlled entity	(33)	(25)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

21. AVAILABLE-FOR- SALE INVESTMENTS

	2009 HK\$ million	2008 HK\$ million
Available-for-sale investments comprise:		
Listed equity securities in Hong Kong (at market price)	2,004	970

Available-for-sale investments at 31 December 2009 and 31 December 2008 represent the Group's equity interest in Shui On Land Limited ("SOL"). In June 2009, 39,607,163 bonus shares of SOL were received by the Group in proportion to its then shareholding in SOL. At 31 December 2009, the Group held a 8.67 % (2008: 9.46%) equity interest in SOL.

In April 2008, the Group disposed of HK\$1 billion worth of SOL shares, representing approximately 3.11% equity interest in SOL. As a result, the Group recognised a gain on disposal of HK\$496 million in the consolidated income statement for the year ended 31 December 2008.

22. INTERESTS IN ASSOCIATES

	2009 HK\$ million	2008 HK\$ million
Cost of investments in associates		
Listed outside Hong Kong	—	1,770
Unlisted	58	65
Share of post-acquisition profits and reserves	274	510
Discount on deemed acquisition of interest in an associate	—	85
	332	2,430
Fair value of listed investments	—	379

As disclosed in note 11, the Company acquired the remaining 57.12% shareholding in CCP, which was a 42.88% associate of the Group. The assets and liabilities of CCP have since been consolidated into the Group's consolidated balance sheet, and interests in associates were reduced by the carrying amount of the Group's interest in CCP of HK\$2,223 million at the date of such acquisition (see note 42).

During the year ended 31 December 2008, CCP re-purchased and cancelled certain of its ordinary shares. As a result, the Group's interest in CCP increased from 40.38% to 42.88%, and the Group recognised a discount on the deemed acquisition of an interest in an associate of HK\$85 million in the consolidated income statement for the year ended 31 December 2008.

Particulars of the principal associates are set out in note 49.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

22. INTERESTS IN ASSOCIATES (continued)

A summary of the financial information of the Group's associates is as follows:

	2009 HK\$ million	2008 HK\$ million
Results for the year ended 31 December		
Turnover	8	2,539
Profit for the year	301	956
Profit for the year attributable to the Group	101	350
<hr/>		
Financial position at 31 December		
Total assets	7,568	14,392
Total liabilities	(5,589)	(7,432)
Non-controlling interests	(839)	(811)
Net assets	1,140	6,149
Net assets attributable to the Group	332	2,430

23. INVESTMENT IN CONVERTIBLE BONDS

In June 2007, the Group subscribed for US\$25 million 2% convertible bonds due in 2012 of CCP. The effective interest rate of the straight debt component is 13.8% per annum. The investment in convertible bonds of CCP has been split between a straight debt component and embedded derivatives including conversion option and redemption options.

As a condition to the acquisition of CCP by the Company, the outstanding convertible bonds were cancelled early by CCP for a cash payment of 90.0% of their principal amount in June 2009. Accordingly, the Group received a sum of US\$23 million (HK\$174 million) from CCP for the early cancellation of its US\$25 million investment in the convertible bonds. The loss of HK\$44 million arising from this early cancellation was included in "Discount on Acquisition of a Subsidiary" (see note 42).

The movement of the convertible bonds for the year is as follows:

	Straight debt HK\$ million	Embedded derivatives HK\$ million
At 1 January 2008	174	16
Interest income recognised during the year	24	–
Interest received during the year	(4)	–
Changes in fair value (note 9)	–	(3)
At 31 December 2008	194	13
Interest income recognised during the year	11	–
Early cancellation	(205)	(13)
At 31 December 2009	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

24. AMOUNTS DUE FROM/TO JOINTLY CONTROLLED ENTITIES

	2009 HK\$ million	2008 HK\$ million
Amounts due from jointly controlled entities		
Non-current (note a)	1,008	554
Current (note b)	437	481
	1,445	1,035
Amounts due to jointly controlled entities (note c)	345	344

Notes:

- (a) The balance is unsecured, interest-free and with no fixed terms of repayment. The amount is carried at amortised cost using the effective interest rate of 2.9% to 4.8% (2008: 4.8% to 5.4%) per annum.
- (b) The balances are unsecured and repayable on demand. Out of the total balance, a total of HK\$289 million (2008: HK\$158 million) bear interest from 0.05% to 2.99% (2008: 0.2% to 7.47%) per annum. The remaining balance is interest-free. In the opinion of the Directors of the Company, the balances will be recoverable in the twelve months from the balance sheet date.
- (c) The balances are unsecured, interest-free and repayable on demand.

25. AMOUNTS DUE FROM/TO ASSOCIATES

	2009 HK\$ million	2008 HK\$ million
Amounts due from associates		
Non-current (note a)	543	568
Current (note b)	39	49
	582	617
Amounts due to associates (note b)	–	28

Notes:

- (a) The balances represent advances to associates for financing the development of Dalian Tiandi. The advances are unsecured and have no fixed terms of repayment. Pursuant to the joint venture agreement, other than an amount of HK\$242 million (2008: Nil), which bears interest at 5% per annum, the remaining amount is interest-free until the independent co-investor of the project has contributed its portion of the advances. Thereafter, all advances will bear interest at a rate of 5% per annum, subject to the joint venture partners' approval. The amounts are carried at amortised cost using the effective interest rate of 4.8% (2008: 4.8%) per annum.
- (b) The balances are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

26. INVENTORIES AND CONTRACTS IN PROGRESS

	2009 HK\$ million	2008 HK\$ million
Inventories		
Raw materials	—	2
Work-in-progress	3	6
Finished goods	2	2
Spare parts	2	3
	7	13
Contracts in progress		
Costs incurred to date	7,154	5,365
Recognised profits less recognised losses	200	162
	7,354	5,527
Less: Progress billings	(7,176)	(5,440)
	178	87
Represented by:		
Amounts due from customers for contract work	302	219
Amounts due to customers for contract work	(124)	(132)
	178	87

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

27. PROPERTIES HELD FOR SALE/PROPERTIES UNDER DEVELOPMENT FOR SALE

The carrying values of properties held for sale and properties under development for sale are situated in the following locations:

	2009 HK\$ million	2008 HK\$ million
In Hong Kong	52	53
In other regions of the PRC (note a)	5,388	186
	5,440	239

Notes:

- (a) The Group is in the process of obtaining the title deeds of certain properties under development for sale with the carrying amount of HK\$561 million (2008: Nil) at 31 December 2009.
- (b) Properties under development for sale of HK\$2,431 million at 31 December 2009 represent the carrying value of the properties expected to be completed and available for sale after one year from the balance sheet date.

28. OTHER CURRENT ASSETS

Debtors, deposits and prepayments

	2009 HK\$ million	2008 HK\$ million
Trade debtors	321	365
Less: Allowance for doubtful debts	(1)	(1)
	320	364
Retention receivable	133	117
Deposit for acquisition of a subsidiary (note 40 (b))	23	–
Prepayments, deposits and other receivables (note a)	472	163
	948	644

Notes:

- (a) Included in prepayments, deposits and other receivables at 31 December 2009 are receivables of HK\$231 million (2008: Nil) in relation to the disposal by CCP in 2008 of a subsidiary that held a property interest in the PRC. The amounts are unsecured and carry interest at prevailing market rates. In the opinion of the Directors of the Company, these receivables will be fully settled when the legal title to the property is transferred to the buyer, which is expected to take place in 2010.
- (b) The Group maintains a defined credit policy to assess the credit quality of each counterparty. Collections are closely monitored to minimise any credit risk associated with trade debtors. The general credit term ranges from 30 to 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

28. OTHER CURRENT ASSETS (continued)

Debtors, deposits and prepayments (continued)

The following is an aged analysis of trade debtors (based on invoice date) net of allowance for doubtful debts at the balance sheet date:

	2009 HK\$ million	2008 HK\$ million
Within 90 days	300	336
<i>Amounts past due but not impaired:</i>		
91 days to 180 days	2	16
181 days to 360 days	6	3
Over 360 days	12	9
	20	28
	320	364
Retention receivable is analysed as follows:		
Due within one year	73	75
Due after one year	60	42
	133	117

Movement in the allowance for doubtful debts

	2009 HK\$ million	2008 HK\$ million
Balance at beginning of the year	1	4
Amounts written off as uncollectible	-	(3)
	1	1

Bank balances, deposits and cash

Bank balances, deposits and cash comprise cash held by the Group and deposits with maturity of three months or less held with banks not restricted as to use. Bank balances carry interest at market rates, which range from 0.01% to 2.00% (2008: 0.01% to 3.50%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. AMOUNTS DUE FROM/TO RELATED COMPANIES/NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

	2009 HK\$ million	2008 HK\$ million
Amounts due from related companies	39	46
Amounts due to related companies	-	2
Amounts due to non-controlling shareholders of subsidiaries	6	-

The related companies are subsidiaries or associates of SOCL, a substantial shareholder of the Company.

The balances are unsecured, interest-free and repayable on demand.

30. PLEDGED BANK DEPOSIT

	Effective interest rate % per annum	2009 HK\$ million	2008 HK\$ million
In relation to: Standby documentary credit issued relating to a bank loan granted to an associate	2.1%	-	76

31. RESTRICTED BANK DEPOSITS

Balances at 31 December 2009 represent custody deposits amounting to RMB263 million (HK\$299 million) placed with banks in relation to certain short-term banking facility arrangements of the Group. The balances carry interest at market rates, which range from 0.36% to 1.71% per annum.

32. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

The Group has committed to disposing of certain jointly controlled entities and a subsidiary, relating to the cement operation not operated by LSOC. The assets and liabilities attributable to these companies have been treated as assets classified as held for sale and liabilities associated with assets classified as held for sale, and are presented separately in the consolidated balance sheet.

	2009 HK\$ million	2008 HK\$ million
Disposal of jointly controlled entities (notes a and b), comprising		
Interests in jointly controlled entities	81	78
Amounts due from jointly controlled entities	86	111
	167	189
Disposal of a subsidiary (note a)		
Property, plant and equipment	135	18
Inventories	26	–
Debtors, deposits and prepayments	370	236
Bank balances, deposits and cash	6	2
	537	256
Total assets classified as held for sale	704	445
Disposal of a subsidiary (note a)		
Amounts due to jointly controlled entities	(144)	(63)
Creditors and accrued charges	(14)	–
Bank borrowings	(170)	–
Liabilities associated with assets classified as held for sale	(328)	(63)

Notes:

(a) In May 2008, the Group entered into sale and purchase agreements (the "Agreements") with LSOC to dispose of the Group's equity interest in and the related shareholder's loans to certain jointly controlled entities and a subsidiary, which are engaged in the production and sale of cement and concrete in Guizhou. Details of the transactions are set out in an announcement and a circular of the Company dated 6 May 2008 and 26 May 2008 respectively. Completion of these disposals was originally expected in 2009. However, due to unexpected delay in fulfilling certain conditions as stipulated in the Agreements caused by factors outside the control of the Group, the disposals have not been completed at 31 December 2009. Timely actions have been taken by the Group and it was expected that the delaying factors would be resolved in 2010. Accordingly, the assets and liabilities attributable to these companies have been respectively treated as assets classified as held for sale and liabilities associated with assets classified as held for sale in the Group's consolidated balance sheet at 31 December 2009. Subsequent to 31 December 2009, the outstanding conditions in the Agreements remain unfulfilled. As agreed between the Group and LSOC, the Agreements lapsed on 28 February 2010. The Group remains committed to its plan to sell these plants and is actively seeking a buyer for them. The Directors of the Company consider that the carrying amount of the Group's investment in these subsidiary and jointly controlled entities will be recovered principally through a sale transaction at market price.

(b) On 5 November 2008, the Group entered into a sale and purchase agreement with an independent third party to dispose of the Group's equity interest in and the related shareholder's loan to a jointly controlled entity, which operates a cement grinding plant in Guizhou for a total consideration of approximately HK\$19 million. The transaction was completed on 24 February 2009, resulting in an insignificant loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

33. CREDITORS AND ACCRUED CHARGES

The aged analysis of creditors (based on invoice date) of HK\$455 million (2008: HK\$280 million), which are included in the Group's creditors and accrued charges, is as follows:

	2009 HK\$ million	2008 HK\$ million
Creditors aged analysis:		
Within 30 days	326	208
31 days to 90 days	95	59
91 days to 180 days	23	10
Over 180 days	11	3
	455	280
Retention payable	205	144
Consideration payable in respect of acquisition of a subsidiary (note)	102	–
Provision for contract work	355	277
Other accruals and payables	286	167
	1,403	868

Note: The amount is repayable when certain conditions as set out in the relevant agreements are met, which is expected to occur in the twelve months from the balance sheet date.

The average credit period on purchases of certain goods is 3 months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

34. CONVERTIBLE BONDS

On 31 July 2006, the Company issued HK\$930 million zero coupon convertible bonds due 31 July 2009. The convertible bonds were denominated in Hong Kong dollars and were listed on the Stock Exchange. The net proceeds received from the issue of the convertible bonds were split between a straight debt component and a number of derivative financial instruments, which were measured at fair values. The effective interest rate of the straight debt component was 12.5% per annum. The outstanding convertible bonds were redeemed in whole at 118.971% of their principal amount for a total of HK\$458 million upon their maturity on 31 July 2009.

The movement of the convertible bonds for the year is as follows:

	Straight debt HK\$ million	Derivative financial instruments Early redemption option HK\$ million	Conversion option HK\$ million
At 1 January 2008	392	(4)	249
Imputed interest expense during the year (note 10)	48	–	–
Changes in fair value (note 9)	–	4	(243)
Conversion during the year	(10)	–	(5)
At 31 December 2008	430	–	1
Imputed interest expense during the year (note 10)	28	–	–
Changes in fair value (note 9)	–	–	(1)
Redemption during the year	(458)	–	–
At 31 December 2009	–	–	–

The principal amount and market value of the convertible bonds outstanding at 31 December 2008 amounted to HK\$385 million and HK\$357 million respectively.

The fair values of the early redemption option and the conversion option at 31 December 2008 were determined based on the Binomial Model and the Black-Scholes Pricing Model, respectively. The major inputs into the models at 31 December 2008 were as follows:

	2008
Share price	HK\$6.08
Risk-free rate of interest	0.084% p.a.
Dividend yield	4.8% p.a.
Volatility	53%

34. CONVERTIBLE BONDS (continued)

The convertible bonds were constituted by a trust deed dated 31 July 2006 (the "Trust Deed"). The principal terms of the convertible bonds included the following:

Conversion

At the option of the holders, the convertible bonds could be converted into fully paid ordinary shares of the Company from 9 September 2006 to 22 July 2009, both days inclusive, at an initial conversion price of HK\$17.134 per share. The conversion price was subject to adjustment in certain events set out in the Trust Deed.

If the arithmetic average of the closing price of the Company's shares for each day during the 15 consecutive Stock Exchange trading days immediately before 31 July 2007, 31 July 2008 and 31 May 2009 was less than the initial conversion price, the conversion price would automatically be adjusted downwards with reference to the 15-day average trading prices prior to adjustment, save that the adjusted conversion price would in no event be less than 72% of the initial conversion price.

Pursuant to this price reset mechanism, the conversion price was further adjusted to HK\$12.34 per share, from HK\$15.41 per share, with effect from 31 May 2009. Details of the adjustment are set out in an announcement of the Company dated 1 June 2009.

Redemption

Unless previously redeemed, purchased and cancelled or converted, the convertible bonds would be redeemed by the Company at 118.971% of their principal amount on 31 July 2009 (the "Maturity Date").

The Company might redeem the convertible bonds, in whole but not in part, (i) on or at any time after 31 January 2008 but not less than 7 business days prior to the Maturity Date, if the closing price of the Company's shares for any 20 Stock Exchange trading days out of the 30 consecutive Stock Exchange trading days prior to the date upon which notice of such redemption was given was at least 125% of the applicable Early Redemption Amount (as defined below) divided by the Conversion Ratio (as defined below) in effect on such trading day or (ii) when more than 95% in principal amount of the convertible bonds had already been converted, redeemed or purchased and cancelled or (iii) as a result of regulatory change impacting on the payment obligations of the Company under the convertible bonds.

The "Early Redemption Amount" was the principal amount of the convertible bonds plus a gross yield of 5.875% per annum, calculated on a semi-annual basis, from 31 July 2006, the closing date of the convertible bond issue, to the Maturity Date. The "Conversion Ratio" was the principal amount of the convertible bonds divided by the then conversion price.

Cash settlement option

The obligation of the Company to issue shares on the exercise of any conversion rights attaching to the convertible bonds might, at the sole discretion of the Company, be settled by cash payment. The cash settlement payment would be the product of the number of the Company's shares otherwise deliverable under the then conversion price and the average closing price of the Company's shares for the 10 Stock Exchange trading days immediately before the date the Company elected to exercise its cash settlement option in respect of the relevant convertible bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

35. BANK BORROWINGS

	2009 HK\$ million	2008 HK\$ million
Secured bank loans	2,905	350
Unsecured bank loans	3,735	4,168
Less: Amounts due within 12 months	6,640 (4,980)	4,518 (3,448)
Amounts due for settlement after 12 months	1,660	1,070
Carrying amount repayable:		
Within one year	4,980	3,448
More than one year but not exceeding two years	940	320
More than two years but not exceeding five years	720	750
	6,640	4,518

The carrying amount of the Group's bank loans, all of which carry interest at variable market rates, is analysed as follows:

Denominated in	Interest rate (per annum)	2009 HK\$ million	2008 HK\$ million
Renminbi	5.40% to 7.56% (2008: Nil)	681	–
Hong Kong dollars	1.58% to 6.00% (2008: 1.00% to 5.89%)	5,959	4,285
United States dollars	(2008: 5.45%)	–	233
		6,640	4,518

35. BANK BORROWINGS (continued)

The following assets were pledged to banks as security for certain banking facilities granted to the Group at the balance sheet date:

	2009 HK\$ million	2008 HK\$ million
Investment properties	311	–
Properties held for sale	532	–
Properties under development for sale (note a)	2,321	–
Amounts due from jointly controlled entities	69	135
Pledged bank deposits	–	76
	3,233	211

Notes:

- (a) The balance includes properties under development for sale with a carrying value of HK\$1,094 million pledged to a bank consortium for a banking facility of RMB650 million (HK\$738 million), which has not been drawn down at 31 December 2009.
- (b) Custody deposits amounting to RMB263 million (HK\$299 million) at 31 December 2009 were placed with banks in relation to certain banking facility arrangements entered into with the Group.
- (c) In addition, the equity interests in certain subsidiaries and jointly controlled entities were also charged to banks as security for certain banking facilities granted to the Group at the balance sheet date.

36. SHARE CAPITAL

	2009 Number of shares	2008 Number of shares	2009 HK\$ million	2008 HK\$ million
Ordinary shares of HK\$1 each:				
Authorised				
At the beginning and the end of the year	1,000,000,000	1,000,000,000	1,000	1,000
Issued and fully paid				
At the beginning of the year	321,901,239	320,929,606	322	321
Exercise of share options	415,000	388,000	–	–
Conversion of convertible bonds	–	583,633	–	1
Acquisition of CCP (note 42)	165,780,547	–	166	–
At the end of the year	488,096,786	321,901,239	488	322

All the new shares issued during the year rank pari passu in all respects with the existing shares.

37. RETIREMENT BENEFIT PLANS

Hong Kong

The Group participates in both a defined benefit scheme (the "Scheme"), which is registered under the Occupational Retirement Schemes Ordinance and a Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme, established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group and are invested in securities and funds under the control of trustees. Employees who were members of the Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the Scheme or switching to the MPF Scheme. All employees joining the Group on or after 1 December 2000 have been required to join the MPF Scheme.

Mandatory Provident Fund Scheme

For members of the MPF Scheme, contributions are made by the employee at 5% of relevant income and by the Group at rates ranging from 5% to 10% of the employee's salary, depending on the employee's length of service with the Group.

The Group's contributions to the MPF Scheme charged to the consolidated income statement as staff cost during the year amounted to HK\$9 million (2008: HK\$7 million). The amount of employer's voluntary contributions to MPF schemes forfeited for the year ended 31 December 2009 and 31 December 2008 was immaterial and was used to reduce the existing level of contributions.

Defined Benefit Scheme

Contributions to the Scheme are made by the members at 5% of their salaries and by the Group at rates, which are based on recommendations made by the actuary to the Scheme. The current employer contribution rate is 2% (2008: 2%) of the members' salaries. Under the Scheme, a member is entitled to retirement benefits, which comprise the sum of any benefits transferred from another scheme and the greater of the sum of the employer's scheduled contribution plus the member's contribution (both contributions being calculated on the scheme salary of the member) accumulated with interest at a rate of no less than 6% per annum before 1 September 2003 and 1% per annum in respect of contributions made on or after 1 September 2003 or 1.8 times the final salary times the years of service in the Scheme on the attainment of the retirement age of 60. For members who joined the Scheme before 1997, the retirement age is 60 for male members and 55 for female members.

The most recent actuarial valuations of the Scheme assets and the present value of the defined benefit obligation were carried out at 31 December 2009 by Ms. Elaine Hwang of Watson Wyatt Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations and the related current service cost were measured using the Projected Unit Credit Method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

37. RETIREMENT BENEFIT PLANS (continued)

Hong Kong (continued)

Defined Benefit Scheme (continued)

The principal actuarial assumptions used at the balance sheet dates are as follows:

	2009	2008
Discount rate	2.6%	1.20%
Expected rate of return on Scheme assets	7.25%	8.00%
Expected rate of salary increase	—	0.5% p.a.
2009	—	0.5% p.a.
2010	3.0% p.a.	1.0% p.a.
2011 and after	3.0% p.a.	2.0% p.a.

The overall expected rate of return is a weighted average of the expected returns of the various categories of Scheme assets held.

The actual return on Scheme assets for the year ended 31 December 2009 was a gain of HK\$86 million (2008: loss of HK\$158 million).

Amounts recognised in the consolidated income statement for the year in respect of the Scheme are as follows:

	Year ended 31 December	
	2009	2008
	HK\$ million	HK\$ million
Current service cost	13	13
Interest cost	4	11
Expected return on Scheme assets	(21)	(36)
Net amount credited to consolidated income statement as staff costs	(4)	(12)

The amount included in the consolidated balance sheet arising from the Group's obligations in respect of the Scheme is as follows:

	2009	2008
	HK\$ million	HK\$ million
Present value of funded obligations	(350)	(359)
Fair value of Scheme assets	350	275
Defined benefit liabilities included in the consolidated balance sheet	—	(84)

The Scheme assets included no shares of the Company (2008: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

37. RETIREMENT BENEFIT PLANS (continued)

Hong Kong (continued)

Defined Benefit Scheme (continued)

Movements of the present value of funded obligations are as follows:

	2009 HK\$ million	2008 HK\$ million
At the beginning of the year	359	331
Current service cost	13	13
Interest cost	4	11
Employees' contributions	6	6
Benefits paid	(28)	(19)
Transfers	12	1
Actuarial (gain) loss (note)	(16)	16
At the end of the year	350	359

Note: Actuarial gain/loss on funded obligations represents the difference between expected obligations and actual obligations at the end of the year. The expected obligations at the end of the year are the obligations at the beginning of the year increased with one more year of service. The actuarial gain/loss is mainly due to decrease/increase of salary in the year being different from that assumed at the last actuarial valuation and the change of certain assumptions at the current actuarial valuation.

Movements of the fair value of Scheme assets are as follows:

	2009 HK\$ million	2008 HK\$ million
At the beginning of the year	275	442
Expected return on Scheme assets	21	36
Actuarial gain (loss) (note)	65	(194)
Employers' contributions	3	3
Employees' contributions	6	6
Benefits paid	(28)	(19)
Transfers	8	1
At the end of the year	350	275

Note: Actuarial gain/loss on Scheme assets represents the difference between expected assets value and actual assets value at the end of the year. The expected assets value at the end of year is the asset value at the beginning of year adjusted by contributions, benefit payments and expected returns. The actuarial gain/loss is due to the actual return being higher/lower than the assumed return at the last actuarial valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

37. RETIREMENT BENEFIT PLANS (continued)

Hong Kong (continued)

Defined Benefit Scheme (continued)

Additional disclosure in respect of the Scheme is as follows:

	2009 HK\$ million	2008 HK\$ million
Experience adjustment on Scheme liabilities	(9)	(1)
Experience adjustment on Scheme assets	65	(194)

The major categories of Scheme assets as a percentage of total Scheme assets are as follows:

	2009 HK\$ million	2008 HK\$ million
Equities	52.2%	44.8%
Hedge funds	25.5%	28.9%
Bonds and cash	22.3%	26.3%
	100%	100%

The Group expects to make a contribution of HK\$2 million (2008: HK\$2 million) to the Scheme during the next financial year.

The Group recognises all actuarial gains and losses of the Scheme directly in the consolidated statement of comprehensive income. The amounts of the actuarial gains and losses recognised during the year and cumulatively, are as follows:

	2009 HK\$ million	2008 HK\$ million
Actuarial gain (loss) on present value of funded obligations	16	(16)
Actuarial gain (loss) on fair value of Scheme assets	65	(194)
Net actuarial gains (losses) recognised	81	(210)
Accumulated amount of actuarial losses recognised in the actuarial gain and loss reserve	(36)	(117)

PRC

The employees of the Group's subsidiaries in the PRC are members of state-managed retirement plans operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement plans to fund the benefits. The only obligation of the Group with respect to the retirement plans is to make the specified contributions.

No other post-retirement benefits are provided to the employees of the Group.

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38. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$ million	Revaluation of properties HK\$ million	Tax losses HK\$ million	Other temporary differences HK\$ million	Total HK\$ million
At 1 January 2008 and at 31 December 2008	(1)	–	–	–	(1)
Acquisition of subsidiaries (notes 42 and 43)	–	(391)	–	–	(391)
(Charge) credit to consolidated income statement	(1)	(12)	24	3	14
At 31 December 2009	(2)	(403)	24	3	(378)

Notes:

- (a) For the purposes of balance sheet presentation certain deferred tax assets and liabilities have been offset.
- (b) At 31 December 2009, the Group had unused tax losses of HK\$638 million (2008: HK\$328 million) available to offset against future profits. A deferred tax asset has been recognised in respect of such tax losses amounting to HK\$99 million (2008: HK\$2 million). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$539 million (2008: HK\$326 million) due to the unpredictability of future profit streams.
- (c) Under the new tax regulations of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the Group's PRC investees from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to profits earned by the Company's PRC subsidiaries amounting to HK\$166 million at 31 December 2009 (2008: HK\$5 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

39. LEASE ARRANGEMENTS

As lessor

Property rental income in respect of the car park spaces earned during the year ended 31 December 2009 was HK\$1 million (2008: HK\$1 million).

At the balance sheet date, the Group had no significant leases contracted with its tenants.

As lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 HK\$ million	2008 HK\$ million
Within one year	19	9
In the second to fifth years inclusive	14	12
	33	21

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for lease terms ranging from one to three years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

40. CAPITAL COMMITMENTS

(a) At 31 December 2009, the Group's capital commitment in respect of development costs for investment properties is as follows:

	2009 HK\$ million	2008 HK\$ million
Authorised but not contracted for	444	–
Contracted but not provided for	71	–

(b) On 22 December 2009, the Group entered into an agreement to acquire the entire issued share capital of Dignitary Limited, which beneficially owns a completed residential development known as Tower 18 of the Lakeville Regency, located in the Luwan District of Shanghai, which the Group intends to hold for sale. The consideration for the acquisition is approximately US\$46 million (HK\$357 million), of which US\$3 million (HK\$23 million) has been paid by the Group as a purchase deposit at 31 December 2009. Details of the transaction are set out in an announcement of the Company dated 22 December 2009. The transaction was completed in January 2010 and the balance of the consideration of US\$43 million was paid.

(c) In addition, the Group had other capital commitments in respect of certain investments not provided for in the financial statements amounting to approximately HK\$288 million at 31 December 2009 (2008: HK\$699 million).

(d) At 31 December 2009, the Group's share of the capital commitments of its jointly controlled entities is as follows:

	2009 HK\$ million	2008 HK\$ million
Authorised but not contracted for	–	–
Contracted but not provided for	716	1,395

41. SHARE-BASED PAYMENTS

On 27 August 2002, the Company adopted a share option scheme (the "Scheme") to replace the share option scheme of the Company adopted on 20 January 1997. The principal terms of the Scheme, which continues in force until the 10th anniversary of such date, are summarised below:

1. Purpose

- (a) The Scheme is a share incentive scheme and was established to recognise and acknowledge the contributions, which eligible participants have made or may make to the Group.
- (b) The Scheme provides eligible participants an opportunity to have a personal stake in the Company with a view to achieving the following objectives:
 - (i) motivating eligible participants to utilise their performance and efficiency for the benefit of the Group; and
 - (ii) attracting and retaining eligible participants whose contributions are or will be beneficial to the long term growth of the Group.

2. Eligible participants

- (a) The Board may at its discretion invite anyone belonging to any of the following classes of persons to take up options to subscribe for shares of the Company, subject to such conditions as the Board may think fit: any Director (whether Executive or Non-executive or Independent Non-executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any invested entity and for the purpose of the Scheme, the options may be granted to any corporation wholly owned by any person mentioned in this paragraph.
- (b) The eligibility of any of the above persons for the grant of any option is determined by the Board from time to time on the basis of his contribution to the development and growth of the Group. The Company is entitled to cancel any option granted to a grantee but not exercised if such grantee fails to meet the eligibility criteria determined by the Board after an option is granted but before it is exercised.

3. Total number of shares available for issue under the Scheme

(a) 10% limit

Subject to the following paragraph, the total number of shares, which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Scheme (excluding options which have lapsed) (the "Scheme Mandate Limit").

The Company may, from time to time, refresh the Scheme Mandate Limit by obtaining the approval of the shareholders in general meeting. The Company may also seek separate approval of the shareholders in general meeting for granting options beyond the Scheme Mandate Limit or the refreshed limit, provided that the options in excess of such limit are granted only to eligible participants specifically identified by the Company before such approval is sought.

(b) 30% limit

The overall limit on the number of shares, which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not exceed 30% of the shares of the Company in issue from time to time.

41. SHARE-BASED PAYMENTS (continued)

4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a grantee would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares of the Company in issue, such further grant must be separately approved by the shareholders in general meeting with such grantee and his associates abstaining from voting.

5. Performance target

The Scheme allows the Board, when offering the grant of any option, to impose any condition including any performance target, which must be met before the option shall vest and become exercisable.

6. Minimum period for which an option must be held

The Board may at its discretion when offering the grant of any option impose any minimum period for which an option must be held before it can be exercised.

7. Exercise price

The exercise price is determined by the Board and shall be at least the highest of: (a) the closing price of a share as stated in the daily quotations sheet of the Stock Exchange on the date of grant; and (b) the average closing price of the shares as shown on the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

8. Amount payable upon acceptance of option

HK\$1.00 is payable by each eligible participant to the Company on acceptance of an offer of options, to be paid within 28 days from the date of the offer.

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For the year ended 31 December 2009

41. SHARE-BASED PAYMENTS (continued)

The following tables disclose details of the Company's share options held by employees (including Directors) and movements in such holdings during the year.

Date of grant	Grant	Subscription price per share HK\$	Number of shares subject to options					Period during which share options outstanding at 31 December 2009 are exercisable	Average closing reference price for exercise of options HK\$ (Note a)	
			At 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year			
26 July 2004	2	7.25	88,000	-	(88,000)	-	-	-	26 January 2005 to 25 July 2009	10.20
29 July 2005	3	9.30	322,000	-	(84,000)	-	-	238,000	29 January 2006 to 28 July 2010	12.18
1 August 2006	4	14.00	3,248,000	-	-	-	-	3,248,000	1 February 2007 to 31 July 2011	-
3 January 2007	5	16.78	8,800,000	-	-	-	(8,800,000)	-	3 January 2010 to 2 January 2012	-
3 January 2007	6	16.78	3,525,000	-	-	(625,000)	-	2,900,000	3 January 2010 to 2 January 2017	-
14 June 2007	7	20.96	2,950,000	-	-	(120,000)	-	2,830,000	14 December 2007 to 13 June 2012	-
14 June 2007	8	20.96	600,000	-	-	-	-	600,000	14 December 2008 to 13 June 2012	-
14 June 2007	9	20.96	4,200,000	-	-	-	(4,200,000)	-	1 July 2010 to 13 June 2012	-
7 May 2008	10	19.76	3,440,000	-	-	-	-	3,440,000	7 November 2008 to 6 May 2013	-
7 May 2008	11	19.76	300,000	-	-	-	-	300,000	7 November 2009 to 6 May 2013	-
7 May 2008	12	19.76	3,000,000	-	-	(1,000,000)	(2,000,000)	-	7 May 2011 to 6 May 2013	-
7 May 2008	13	19.76	4,750,000	-	-	(1,750,000)	-	3,000,000	7 May 2011 to 6 May 2018	-
9 April 2009	14	7.63	-	5,420,000	(243,000)	(516,000)	-	4,661,000	9 October 2009 to 8 April 2014	12.17
9 April 2009	15	7.63	-	5,000,000	-	(1,750,000)	-	3,250,000	9 April 2012 to 8 April 2019	-
5 June 2009 (Note b)	16	11.90	-	5,752,000	-	-	-	5,752,000	3 January 2010 to 2 January 2012	-
5 June 2009 (Note b)	17	11.90	-	2,182,000	-	-	-	2,182,000	1 July 2010 to 13 June 2012	-
5 June 2009 (Note b)	18	11.90	-	1,236,000	-	-	-	1,236,000	7 May 2011 to 6 May 2013	-
<hr/>										
35,223,000 19,590,000 (415,000) (5,761,000) (15,000,000) 33,637,000										
Number of shares subject to options exercisable at the end of the year										
6,959,000										

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For the year ended 31 December 2009

41. SHARE-BASED PAYMENTS (continued)

Date of grant	Grant	Subscription price per share HK\$	Number of shares subject to options						Period during which share options are exercisable	Average closing reference price for exercise of options HK\$ (Note a)
			At 1 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2008		
4 August 2003	1	5.80	6,000	–	(6,000)	–	–	–	4 February 2004 to 3 August 2008	16.30
26 July 2004	2	7.25	220,000	–	(106,000)	(26,000)	–	88,000	26 January 2005 to 25 July 2009	15.22
29 July 2005	3	9.30	466,000	–	(108,000)	(36,000)	–	322,000	29 January 2006 to 28 July 2010	16.63
1 August 2006	4	14.00	3,464,000	–	(120,000)	(96,000)	–	3,248,000	1 February 2007 to 31 July 2011	19.43
3 January 2007	5	16.78	8,800,000	–	–	–	–	8,800,000	3 January 2010 to 2 January 2012	–
3 January 2007	6	16.78	3,525,000	–	–	–	–	3,525,000	3 January 2010 to 2 January 2017	–
14 June 2007	7	20.96	3,070,000	–	(48,000)	(72,000)	–	2,950,000	14 December 2007 to 13 June 2012	26.27
14 June 2007	8	20.96	900,000	–	–	(300,000)	–	600,000	14 December 2008 to 13 June 2012	–
14 June 2007	9	20.96	4,200,000	–	–	–	–	4,200,000	1 July 2010 to 13 June 2012	–
7 May 2008	10	19.76	–	3,440,000	–	–	–	3,440,000	7 November 2008 to 6 May 2013	–
7 May 2008	11	19.76	–	300,000	–	–	–	300,000	7 November 2009 to 6 May 2013	–
7 May 2008	12	19.76	–	3,000,000	–	–	–	3,000,000	7 May 2011 to 6 May 2013	–
7 May 2008	13	19.76	–	4,750,000	–	–	–	4,750,000	7 May 2011 to 6 May 2018	–
			24,651,000	11,490,000	(388,000)	(530,000)	–	35,223,000		
Number of shares subject to options exercisable at the end of the year										4,090,400

Notes:

- (a) The average closing reference price represented the average of the closing prices of the Company's shares immediately before the dates on which the share options were exercised during the year, weighted by the number of shares subject to the options exercised.
- (b) The three batches of share options granted on 5 June 2009 (Grants 16 to 18) were offered in exchange for certain share options granted in 2007 (Grants 5 and 9) and 2008 (Grant 12). Such replacement has been accounted for as modification under HKFRS 2. The grant of these new share options was based on a value-for-value exchange such that, at the time of replacement, the total fair values of new share options granted for each batch were substantially the same as the total fair values of the share options surrendered in exchange for each batch. As a result, no additional share-based payment expenses were recognised. Existing share options to subscribe for a total of 15 million shares were surrendered and cancelled in exchange for new share options to subscribe for 9,170,000 shares. Details of the grant have been set out in an announcement of the Company dated 8 June 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

41. SHARE-BASED PAYMENTS (continued)

The vesting conditions of the respective share option grants are as follows:

For Grants 1 to 4, 7, 10 and 14:

- 20%: 6 months after the date of grant
- 20%: 1st anniversary of the date of grant
- 20%: 2nd anniversary of the date of grant
- 20%: 3rd anniversary of the date of grant
- 20%: 4th anniversary of the date of grant

For Grants 5, 12, 16 and 18:

Service Requirement All options may vest on 3 January 2010 (for Grant 5) or 7 May 2011 (for Grant 12) subject to the satisfaction of all the performance conditions.

Performance Hurdle All options may vest on vesting date depending on performance appraisal grading that includes 50% weight of Project Development team performance and 50% weight of individual performance, both of which the grantee would achieve in his/her performance appraisal during 2007, 2008 and 2009 (for Grant 5) or 2008, 2009 and 2010 (for Grant 12), and apply to 1/3 of the options granted respectively.

The vesting schedule is as follows:

Performance	Vested Portion of Options
Superior	100%
Superior minus	90%
Good plus	75%
Good	60%

Grants 5 and 12 were replaced by Grants 16 and 18 respectively on 5 June 2009. The replacement grants are exercisable at a lower exercise price and there is no change in the vesting conditions of the respective original share option grants.

For Grants 6, 13 and 15:

Vesting of the options is conditional upon the performance of the Company's shares over the period from close of trading in Hong Kong on 3 January 2007 to 2 January 2010 (for Grant 6) or 1 January 2008 to 31 December 2010 (for Grant 13) or 1 January 2009 to 31 December 2011 (for Grant 15) ("Performance Period"). Vesting will only occur if the change in the total shareholder return ("TSR") of the Company's shares over the relevant Performance Period is (1) positive and (2) equal to or greater than the change in the total return index ("TRI") of the Hang Seng Index ("HSI") over the relevant Performance Period.

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For the year ended 31 December 2009

41. SHARE-BASED PAYMENTS (continued)

For Grants 6, 13 and 15: (continued)

The vesting schedule is as follows:

Positive change in TSR of the Company compared to the change in the HSI TRI during the relevant Performance Period	Vested Portion of Options
Less than the change in the HSI TRI	0%
Equal to the change in the HSI TRI	30%
For each percentage point up to 35% above the change in the HSI TRI	2%
Higher than the change in the HSI TRI by 35% or above	100%

If the change in HSI TRI is negative compared to the positive change in TSR of the Company, full vesting will apply.

For Grant 9 and 17:

Service Requirement	All options may vest on 1 July 2010 subject to the satisfaction of all the performance conditions.
Performance Hurdle	All options may vest on vesting date depending on performance appraisal grading that includes 50% weight of Project Development team performance and 50% weight of individual performance, both of which the grantee would achieve in his/her performance appraisal at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010, and apply to 1/6, 1/3, 1/3 and 1/6 of the options granted respectively.

The vesting schedule is as follows:

Performance	Vested Portion of Options
Superior	100%
Superior minus	90%
Good plus	75%
Good	60%

Grant 9 was replaced by Grant 17 on 5 June 2009. The replacement grant is exercisable at a lower exercise price and there is no change in the vesting conditions of the original share option grant.

For Grants 8 and 11:

Service Requirement	Subject to the satisfaction of all the performance conditions, the options may vest in accordance with the following schedule: 40%: 18 months after the date of grant 20%: 2nd anniversary of the date of grant 20%: 3rd anniversary of the date of grant 20%: 4th anniversary of the date of grant
Performance Hurdle	The vesting of these share options is subject to the satisfactory performance of the Project Development business as a whole during the next 18 months after the date of grant as assessed by the Company's executive management.

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41. SHARE-BASED PAYMENTS (continued)

The fair values of services received in return for share options granted is measured by reference to the fair value of share options granted. Except for Grants 6, 13 and 15, which adopt the Monte Carlo model, the estimate of the fair value of the share options granted is measured based on the Binomial model. The inputs into the models were as follows:

	Grant 1	Grant 2	Grant 3	Grant 4	Grant 5	Grant 6	Grant 7	Grant 8	Grant 9
Date of grant	4 August 2003	26 July 2004	29 July 2005	1 August 2006	3 January 2007	3 January 2007	14 June 2007	14 June 2007	14 June 2007
Average fair value	HK\$1.33	HK\$1.79	HK\$2.27	HK\$3.83	HK\$4.39	HK\$3.46	HK\$5.72	HK\$5.78	HK\$5.85
Share price on the date of grant	HK\$5.70	HK\$7.30	HK\$9.30	HK\$14.00	HK\$16.50	HK\$16.50	HK\$20.90	HK\$20.90	HK\$20.90
Exercise price	HK\$5.80	HK\$7.25	HK\$9.30	HK\$14.00	HK\$16.78	HK\$16.78	HK\$20.96	HK\$20.96	HK\$20.96
Expected volatility	40% p.a.	40% p.a.	40% p.a.	40% p.a.	40% p.a.	40% p.a.	40% p.a.	40% p.a.	40% p.a.
Average expected life	3.84 years	3.82 years	3.81 years	4.21 years	4.53 years	3.48 years	4.17 years	3.48 years	4.52 years
Average risk-free rate	2.86% p.a.	3.25% p.a.	3.53% p.a.	4.40% p.a.	3.67% p.a.	3.62% p.a.	4.61% p.a.	4.62% p.a.	4.64% p.a.
Expected dividend paid	5% p.a.	5% p.a.	5% p.a.	5% p.a.	5% p.a.	5% p.a.	5% p.a.	5% p.a.	5% p.a.
Rate of leaving service	2% p.a.	2% p.a.	2% p.a.	2% p.a.	3% p.a.	0% p.a.	3% p.a.	3% p.a.	3% p.a.
Expected volatility of HSI TRI	n/a	n/a	n/a	n/a	n/a	15% p.a.	n/a	n/a	n/a
Expected correlation between TSR of the Company and HSI TRI	n/a	n/a	n/a	n/a	n/a	35% p.a.	n/a	n/a	n/a
	Grant 10	Grant 11	Grant 12	Grant 13	Grant 14	Grant 15	Grant 16	Grant 17	Grant 18
Date of grant	7 May 2008	7 May 2008	7 May 2008	7 May 2008	9 April 2009	9 April 2009	5 June 2009	5 June 2009	5 June 2009
Average fair value	HK\$5.06	HK\$5.09	HK\$5.12	HK\$3.03	HK\$2.26	HK\$2.16	HK\$3.21	HK\$3.42	HK\$3.80
Share price on the date of grant	HK\$19.28	HK\$19.28	HK\$19.28	HK\$19.28	HK\$7.27	HK\$7.27	HK\$11.78	HK\$11.78	HK\$11.78
Exercise price	HK\$19.76	HK\$19.76	HK\$19.76	HK\$19.76	HK\$7.63	HK\$7.63	HK\$11.90	HK\$11.90	HK\$11.90
Expected volatility	42% p.a.	42% p.a.	42% p.a.	42% p.a.	52% p.a.	52% p.a.	55% p.a.	55% p.a.	55% p.a.
Average expected life	4 years	4 years	4 years	4 years	5 years	5 years	2.1 years	2.6 years	3.5 years
Average risk-free rate	2.35% p.a.	2.37% p.a.	2.40% p.a.	2.36% p.a.	1.56% p.a.	1.91% p.a.	1.10% p.a.	1.10% p.a.	1.10% p.a.
Expected dividend paid	5% p.a.	5% p.a.	5% p.a.	5% p.a.	5% p.a.	5% p.a.	5% p.a.	5% p.a.	5% p.a.
Rate of leaving service	3% p.a.	3% p.a.	3% p.a.	n/a	3.5% p.a.	n/a	3% p.a.	3% p.a.	3% p.a.
Expected volatility of HSI TRI	n/a	n/a	n/a	25% p.a.	n/a	38% p.a.	n/a	n/a	n/a
Expected correlation between TSR of the Company and HSI TRI	n/a	n/a	n/a	45% p.a.	n/a	58% p.a.	n/a	n/a	n/a

For grants in 2009, the expected volatility was determined by using the average historical volatility of the Company's share price over last 7 years before the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Total consideration received during the year from employees, including the Directors of the Company, for taking up the options granted was HK\$104 (2008: HK\$72).

The Group recognised a total expense of HK\$42 million for the year ended 31 December 2009 (2008: HK\$40 million) in relation to share options granted by the Company.

42. ACQUISITION OF A SUBSIDIARY

As disclosed in note 11 above, the Company acquired the remaining 57.12% shareholding in CCP, which became a wholly-owned subsidiary of the Group. The net assets acquired in this transaction and the discount on acquisition are as follows:

	Acquiree's carrying amounts before acquisition HK\$ million	Fair value and other adjustments HK\$ million	Fair value HK\$ million
		(Note b)	
Property, plant and equipment	22	–	22
Interests in jointly controlled entities	710	(40)	670
Investment properties	–	272*	272
Properties held for sale	68	4	72
Properties under development for sale	4,117	(54)*	4,063
Loan to a related company	113	–	113
Other loan receivable	138	–	138
Debtors, deposits and prepayments	249	–	249
Amounts due from jointly controlled entities	365	–	365
Amounts due from related companies	168	–	168
Tax recoverable	1	–	1
Bank balances, deposits and cash	691	–	691
Creditors and accrued charges	(341)	–	(341)
Amounts due to jointly controlled entities	(50)	–	(50)
Amounts due to related companies	(45)	–	(45)
Loan from related companies	(328)	–	(328)
Foreign exchange forward contract	(39)	–	(39)
Taxation payable	(44)	–	(44)
Bank borrowings due within one year	(260)	–	(260)
Bank borrowings due over one year	(261)	–	(261)
Defined benefit scheme liabilities	(3)	–	(3)
Deferred tax liabilities	(39)	(289)	(328)
Net assets of subsidiary acquired	5,232	(107)	5,125
Transferred from interests in associates			(2,223)
Revaluation surplus, net of deferred tax of HK\$32 million on previously held interest			(95)
Transaction costs			(52)
Carrying amount of convertible bonds of CCP held by the Group			(218)
Discount on acquisition (note 11)			(648)
Net consideration			1,889
Net consideration satisfied by:			
Issue of new shares of the Company			1,928
Cash consideration paid			135
Proceeds received on early cancellation of convertible bonds of CCP			(174)
			1,889
Net cash inflow arising on acquisition:			
Cash consideration paid			(135)
Cash and cash equivalents acquired			691
Proceeds received on early cancellation of convertible bonds of CCP			174
			730

* Included in these amounts is a reclassification adjustment of certain property interests (with fair value of HK\$272 million) from properties under development for sale to investment properties, as the Group intends to hold such properties for rental income and capital appreciation rather than sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

42. ACQUISITION OF A SUBSIDIARY (continued)

Notes:

(a) A total of 165,780,547 new shares of the Company were issued and a total of £10.7 million (HK\$135 million) cash was paid as consideration for the acquisition of the 57.12% equity interest in CCP. The fair value of the share consideration was determined based on the published prices of the Company's share on the respective dates of exchange. In addition, as a condition to the acquisition, CCP cancelled early its convertible bonds at 90% of the principal amount in June 2009 (see note 23). Included in the Group's revenue and profit for the year is HK\$19 million and loss of HK\$32 million respectively attributable to CCP since the acquisition date. If the acquisition had been completed on 1 January 2009, the Group's revenue and profit for the year would have been HK\$3,208 million and HK\$910 million respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of the total revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

(b) The fair value of property interests held by CCP's subsidiaries and jointly controlled entities are determined based on the valuation carried out by an independent valuer and determined by (i) direct comparison approach, making reference to the comparable sales transactions as available in the market; or (ii) capitalisation of net income derived from the properties, taking into account the construction costs that would be expended to complete the development to reflect the quality of the completed development, as appropriate.

43. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF A SUBSIDIARY

In November 2009, the Group acquired the remaining 51% shareholding in Chengdu Xianglong Real Estate Co., Ltd. ("Xianglong"), a 49% jointly controlled entity of the Group. Following completion of the acquisition, Xianglong has become a wholly-owned subsidiary of the Group. This transaction has been reflected as a purchase of assets and liabilities.

The net assets acquired in the transaction are as follows:

	HK\$ million
Investment property	283
Properties under development for sale	653
Debtors, deposits and prepayments	1
Amounts due from related companies	48
Amounts due to related companies	(10)
Deferred tax liabilities	(63)
Net assets of the subsidiary acquired	912
Transferred from interests in jointly controlled entities	(568)
Consideration	344
Total consideration satisfied by:	
Cash consideration paid	242
Consideration outstanding at 31 December 2009	102
	344
Net cash outflow arising on acquisition:	
Cash consideration paid	(242)

44. CONTINGENT LIABILITIES

At 31 December 2009, the Group had the following contingent liabilities, which have not been provided for in the consolidated financial statements:

- (a) Standby documentary credit arranged with a bank amounting to HK\$216 million (2008: HK\$292 million) to secure a bank loan granted to a subsidiary of an associate.
- (b) Guarantees issued in favour of banks amounting to RMB47 million (HK\$53 million) (2008: Nil) in respect of mortgage facilities granted by the banks to the buyers of the Group's property inventories.
- (c) Effective share of a guarantee issued in favour of banks amounting to HK\$289 million (2008: Nil) to secure a bank loan granted to a jointly controlled entity.
- (d) Guarantees issued in favour of a bank for a loan granted to a former wholly-owned subsidiary of CCP (the "Former Subsidiary") with an outstanding amount of RMB542 million (HK\$615 million) at 31 December 2009. The acquirer of the Former Subsidiary has agreed to procure the repayment of the bank loan and this obligation is guaranteed by the parent company of such acquirer.

In the opinion of the Directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors consider that the possibility of the default of the parties involved is remote. Accordingly, no value has been recognised in the consolidated balance sheet.

45. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group had the following transactions with SOCL and its subsidiaries and associates other than those of the Group ("SOCL Private Group").

Nature of transactions	2009 HK\$ million	2008 HK\$ million
Income recognised:		
Management and information system services	1	–
Construction work	223	278
Cost and expenses recognised:		
Rental expenses	1	1
Interest expense	2	2

The outstanding balances with SOCL Private Group at the balance sheet date are disclosed in note 29.

- (b) During the year, the Group had the following transactions with jointly controlled entities.

Nature of transactions	2009 HK\$ million	2008 HK\$ million
Income recognised:		
Interest income	1	5
Imputed interest income	35	23
Management fee	52	31
Cost and expenses recognised:		
Construction/subcontracting work	4	8
Interest expense	1	2

The outstanding balances with jointly controlled entities at the balance sheet date are disclosed in note 24.

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45. RELATED PARTY TRANSACTIONS (continued)

(c) During the year, the Group had the following transactions with associates.

Nature of transactions	2009 HK\$ million	2008 HK\$ million
Income recognised:		
Interest income	22	6
Imputed interest income	13	31
Management fee	79	172
Interest income on convertible bonds	11	24
Construction/subcontracting work	99	67

The outstanding balances with associates at the balance sheet date are disclosed in note 25.

(d) The Group is licensed by Shui On Holdings Limited, a wholly-owned subsidiary of SOCL, to use the trademark, trade name of "Shui On", "瑞安" and/or the Seagull devices on a non-exclusive, royalty-free basis for an unlimited period of time.

(e) During the year, the Group was granted unsecured interest bearing short-term loans totalling HK\$200 million from SOCL Private Group (2008: HK\$300 million), and incurred interest on such loans amounting to HK\$2 million (2008: HK\$2 million). The loans, inclusive of interest, were repaid during the year.

(f) During the year, the Group received dividend income amounting to HK\$22 million (2008: HK\$84 million) from certain jointly controlled entities.

(g) During the year ended 31 December 2008, the Group disposed of HK\$1 billion worth of SOL shares to a wholly-owned subsidiary of SOCL. No such disposal incurred during the current year.

(h) Disclosures of the remuneration of Directors and other members of key management during the year under HKAS 24 Related Party Disclosures, were as follows:

	2009 HK\$ million	2008 HK\$ million
Fees	2	2
Salaries and other benefits	38	37
Bonuses	21	15
Retirement benefit scheme contributions	1	1
Share-based payments	23	21
	85	76

The remuneration of Executive Directors is determined by the Remuneration Committee having regard to the performance of each individual. The Remuneration Committee also determines the guiding principles applicable to the remuneration of key executives who are not Directors. In both cases, the Remuneration Committee has regard to market trends.

46. EVENTS AFTER THE BALANCE SHEET DATE

The Group had the following significant events subsequent to the balance sheet date:

- (a) On 28 January 2010, the Group entered into an agreement for the disposal of the entire issued capital of Chongqing TH Holding Management Company Limited (an indirect wholly-owned subsidiary of the Company), which owns a property under development for sale located at Danlong Road, Chongqing for a consideration of RMB180 million (HK\$204 million). The disposal, when completed, is expected to generate a gain of approximately RMB10 million (HK\$12 million) to the Group.
- (b) On 10 February 2010, the Group entered into an agreement for the disposal of the entire issued share capital of and the related shareholder's loans to Prosper Idea Limited (an indirect wholly-owned subsidiary of the Company), which is the indirect sole owner of the serviced apartments in Central Point Phase I located at the Wuhou District of Chengdu. The consideration (subject to adjustment) is approximately RMB367 million (HK\$417 million). The disposal is expected to generate a gain of approximately RMB45 million (HK\$51 million) to the Group on completion. Details of this transaction are set out in an announcement of the Company dated 11 February 2010.

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The Directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the following list contains only the particulars of subsidiaries at 31 December 2009 and 2008, which principally affect the results or assets of the Group. All the companies listed below were incorporated and are operating in Hong Kong except as otherwise indicated.

Subsidiaries	Issued and fully paid share capital/registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities	Notes
		Directly	Indirectly		
Construction and building maintenance business					
Dynamic Mark Limited	100 ordinary shares of HK\$1 each 3,000,000 non-voting deferred shares of HK\$1 each	–	80%	Supply of metal gates	
P.D. (Contractors) Limited	1,000,000 ordinary shares of HK\$1 each	–	98.34%	Renovation work	
Pacific Extend Limited	10,000 ordinary shares of HK\$1 each 6,000 special shares of HK\$1 each	–	67%	Maintenance contractor	
Pat Davie Limited	9,400,100 ordinary shares of HK\$1 each 100,000 non-voting deferred shares of HK\$10 each	–	98.34%	Interior decoration, fitting out, design and contracting	
Pat Davie (Macau) Limited##	two quotas of total face value of MOP1,000,000	–	98.34%	Interior decoration, fitting out, design and contracting	
Panyu Dynamic Mark Steel and Aluminium Engineering Co. Ltd.**@	Registered and paid up capital HK\$4,000,000	–	64%	Steel fabrication	

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47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Subsidiaries	Issued and fully paid share capital/registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities	Notes
		Directly	Indirectly		
Construction and building maintenance business (continued)					
Shui Fai Metal Works Engineering Company Limited	10,000 ordinary shares of HK\$1 each	–	55%	Sales and installation of wallform and other metal works	
Shui On Building Contractors Limited	117,000,100 ordinary shares of HK\$1 each 33,000,100 non-voting deferred shares of HK\$1 each 50,000 non-voting deferred shares of HK\$1,000 each	–	100%	Building construction and maintenance	
Shui On Construction Company Limited	100 ordinary shares of HK\$1 each 69,000,000 non-voting deferred shares of HK\$1 each 1,030,000 non-voting deferred shares of HK\$100 each	–	100%	Building construction	
Shui On Contractors Limited*	1 share of US\$1	100%	–	Investment holding	
Shui On Plant and Equipment Services Limited	16,611,000 ordinary shares of HK\$1 each 45,389,000 non-voting deferred shares of HK\$1 each	–	100%	Owning and leasing of plant and machinery and structural steel construction work	
Shui On Construction Co., Ltd.**@	Registered and paid up capital RMB50,000,000	–	70%	Building construction and maintenance	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Subsidiaries	Issued and fully paid share capital/registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities	Notes
		Directly	Indirectly		
Cement operations					
Asia No.1 Material Supply Limited	100 ordinary shares of HK\$100 each 1,000 non-voting deferred shares of HK\$100 each	–	100%	Holding of a quarry right	
Asia Materials Limited	2 ordinary shares of HK\$1 each	–	100%	Trading	
Glorycrest Holdings Limited*	1 share of US\$1	–	100%	Investment holding	
Shui On Building Materials Limited	100 ordinary shares of HK\$1 each 1,000,000 non-voting deferred shares of HK\$1 each	–	100%	Investment holding and sale of construction materials	
Shui On Cement (Guizhou) Limited*	100,000 shares of US\$1 each	–	100%	Investment holding	
Shui On Materials Limited*	1 share of US\$1	100%	–	Investment holding	
貴州瑞安水泥發展管理有限公司**	Registered and paid up capital US\$670,000	–	100%	Provision of consultancy services	
Middleton Investments Limited***	2 ordinary shares of US\$1 each	–	100%	Investment holding	
Tinsley Holdings Limited***	2 ordinary shares of US\$1 each	–	100%	Investment holding	
Top Bright Investments Limited***	2 ordinary shares of US\$1 each	–	100%	Investment holding	
Winway Holdings Limited***	2 ordinary shares of US\$1 each	–	100%	Investment holding	
Fortune Smooth Investments Limited*	1 share of US\$1	–	100%	Investment holding	
Wayly Holdings Limited*	1 share of US\$1	–	100%	Investment holding	
貴州凱里瑞安建材有限公司**	Registered and paid up capital RMB139,660,500	–	100%	Manufacture and sale of cement and related construction materials products	

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For the year ended 31 December 2009

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Subsidiaries	Issued and fully paid share capital/registered capital	Percentage of issued share/registered capital held by the Company		Principal activities	Notes
		Directly	Indirectly		
Property business					
Jade City International Limited	2 ordinary shares of HK\$1 each	–	100%	Property holding	
New Rainbow Investments Limited*	1 share of US\$1	100%	–	Investment holding	
Brilliance Investments Limited*	1 share of US\$1	100%	–	Investment holding	
Main Zone Group Limited*	1 share of US\$1	100%	–	Investment holding	
China Central Properties Limited*	281,193,011 shares of GBP0.01 each	57.12%	42.88%	Investment holding	1
Shui On China Central Properties Limited (formerly known as China Central Properties (BVI) Limited)*	1 share of US\$1	–	100%	Investment holding	1
Dalian Shengyuan Real Estate Consulting Co., Ltd.**	Registered and paid up capital RMB50,000,000	–	100%	Investment holding	1
北京億達房地產開發有限公司**	Registered and paid up capital RMB30,000,000	–	100%	Property development	1
北京超騰投資管理有限公司**	Registered and paid up capital RMB10,000,000	–	100%	Property investment	1
Chengdu Shui On Huiyuan Property Co., Ltd.***	Registered capital US\$21,000,000 and paid up capital US\$6,000,000	–	100%	Property development	1
Chengdu Shui On Huida Property Co., Ltd.***	Registered and paid up capital RMB650,000,000	–	100%	Property development	1
Chongqing Fengde Land Limited****	Registered capital US\$40,000,000 and paid up capital US\$35,896,300	–	100%	Investment holding	1
重慶豐德尊鼎實業有限公司**	Registered and paid up capital RMB10,000,000	–	100%	Property development	1
重慶豐德南洋實業有限公司**	Registered and paid up capital RMB10,000,000	–	100%	Property development	1
重慶豐德豪門實業有限公司**	Registered and paid up capital RMB10,000,000	–	100%	Property development	1
Chongqing Hui Zheng Properties Co., Ltd.****	Registered and paid up capital US\$75,000,000	–	100%	Property development	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Subsidiaries	Issued and fully paid share capital/registered capital	Percentage of issued share/registered capital held by the Company		Principal activities	Notes
		Directly	Indirectly		
Property business (continued)					
Honest Joy Investments Limited*	100 shares of US\$1	–	100%	Investment holding	2
Pacific Hill Limited	1 ordinary share of HK\$1	–	100%	Investment holding	2
Qingdao Zhongcheng Yinchu Development Co., Ltd.**+	Registered and paid up capital HK\$400,000,000	–	100%	Property development	1
Shenyang Hua Hui Properties Co. Ltd.**+	Registered and paid up capital US\$70,000,000	–	100%	Property development	2
Chengdu Xianglong Real Estate Co., Ltd. (formerly known as Orient Home Chengdu Jinniu Zhiye Co., Ltd.)*++	Registered and paid up capital RMB300,000,000	–	100%	Property development	3
廣州英發房地產有限公司**+	Registered capital US\$69,500,000 and paid up capital US\$50,600,000	–	100%	Property development	1
SOCAM Asset Management Limited*	1 share of US\$1	100%	–	Investment holding	
SOCAM Asset Management (HK) Limited	1 ordinary share of HK\$1	–	100%	Provision of management services	
Beijing SOCAM Real Estate Consulting Co., Ltd.**+	Registered and paid up capital RMB800,000	–	100%	Provision of consultancy services	
Shui On Project Management (China) Limited*	1 share of US\$1	–	100%	Investment holding	
Trillion Earn Limited	1 ordinary share of HK\$1	–	100%	Investment holding	
High Spirit Project Management Consultancy Limited	1 ordinary share of HK\$1	–	100%	Project management consultancy services	
Park Wealth Investments Limited*	1 share of US\$1	100%	–	Investment holding	
Poly Edge Enterprises Limited*	1 share of US\$1	100%	–	Investment holding	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Subsidiaries	Issued and fully paid share capital/registered capital	Percentage of issued share/registered capital held by the Company		Principal activities	Notes
		Directly	Indirectly		
Property business (continued)					
Max Clear Holdings Limited*	1 share of US\$1	100%	–	Provision of management services	
Dalian Zhong Hui Construction Materials Co., Ltd.**+	Registered capital US\$32,000,000 and paid up capital US\$6,400,000	–	100%	Wholesale of construction materials	
Dalian Jiasheng Science & Technology Development Co., Ltd.**+	Registered capital US\$6,000,000 and paid up capital US\$1,200,000	–	100%	Software and hardware development and technical consultancy services	
Dalian Jiarui Science & Technology Development Co., Ltd.**+	Registered and paid up capital US\$10,000,000	–	100%	Software and hardware development and technical consultancy services	
Other businesses					
Rise Huge International Limited*	1 share of US\$1	100%	–	Investment holding	
Lamma Rock Products Limited	100 ordinary shares of HK\$10 each 3,500,000 non-voting deferred shares of HK\$10 each	–	100%	Investment holding	
T H Industrial Management Limited#	2,740 ordinary shares of US\$1 each	–	100%	Investment holding	
Prelude Group Limited*	2,000 ordinary shares of US\$1 each	–	100%	Investment holding	
Chongqing TH Holding Management Company Limited**+	Registered capital RMB291,460,000 and paid up capital RMB132,004,860	–	100%	Exploration and management of investment projects	
Chongqing T.H. White Cement Co., Ltd.**@	Registered and paid up capital US\$1,506,000	–	60%	Manufacture and sale of cement	
Chongqing Yugang Foreign Investment Consulting Limited**	Registered and paid up capital RMB800,000	–	100%	Provision of investment consultation	

* Incorporated in the British Virgin Islands

** Registered and operated in other regions of the PRC

*** Incorporated in Mauritius

Incorporated in The Bahamas

Incorporated in Macau Special Administrative Region of the PRC

+ Wholly-foreign owned enterprises

^ Incorporated in the Isle of Man

@ Equity joint venture

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

None of the subsidiaries had any debt securities subsisting at 31 December 2009 or at any time during the year.

Notes:

1. The Company acquired the remaining 57.12% shareholding in CCP, which became a wholly-owned subsidiary of the Group. Accordingly, the Group's interest in these companies changed from 42.88% at 31 December 2008 to 100% at 31 December 2009.
2. In January 2009, Shui On China Central Properties Limited, a wholly-owned subsidiary of CCP, purchased the remaining 30% equity interest in Honest Joy Investments Limited ("Honest Joy") from a joint venture partner. Accordingly, Honest Joy and its subsidiaries, Pacific Hill Limited and Shenyang Hua Hui Properties Co., Ltd., were changed from 70%-owned jointly controlled entities to 100%-owned subsidiaries of CCP, and became 100%-owned subsidiaries of the Company upon the Company's acquisition of the remaining 57.12% shareholding in CCP as mentioned in note 1 above.
3. In November 2009, the Group acquired the remaining 51% shareholding in Chengdu Xianglong Real Estate Co., Ltd. ("Xianglong"), and Xianglong became a 100%-owned subsidiary of the Group. Before the acquisition, Xianglong is a 24.5% (subsequently changed to 49% upon the Company's acquisition of the remaining 57.12% shareholding in CCP) jointly controlled entity of the Group.

48. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

The Directors are of the opinion that a complete list of the particulars of all jointly controlled entities will be of excessive length and therefore the following list contains only the particulars of principal jointly controlled entities of the Group at 31 December 2009 and 2008. All the companies listed below were incorporated and are operating in Hong Kong except otherwise indicated.

Indirect jointly controlled entities	Issued and paid up share capital/registered capital	Effective percentage of issued share/registered capital held by the Group	Principal activities	Notes
Construction and building maintenance business				
Brisfull Limited	5,000,000 ordinary shares of HK\$1 each	50%	Sale and installation of aluminium window products	
Super Race Limited	420,000 ordinary shares of HK\$1 each	50%	Supply of sink units and cooking benches	
鵝山超合預制件有限公司**@	Registered capital US\$1,284,600 and paid up capital US\$484,600	50%	Manufacture of sink units and cooking benches	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

48. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES (continued)

Indirect jointly controlled entities	Issued and paid up share capital/registered capital	Effective percentage of issued share/registered capital held by the Group	Principal activities	Notes
Cement operations				
Beijing Chinefarge Cement Co., Ltd.**@	Registered and paid up capital RMB315,000,000	29.25%	Production and sales of cement and cement related products	
Beijing Shunfa Lafarge Cement Co., Ltd.**@	Registered and paid up capital RMB150,000,000	31.5%	Production and sales of cement and cement related products	
Beijing Yicheng Lafarge Concrete Co., Ltd.**@	Registered and paid up capital RMB30,340,000	34.52%	Production and sales of concrete	
Chongqing TH New Building Materials Co., Ltd.**@	Registered and paid up capital RMB41,500,000	33.75%	Production and sales of cement and cement related products	
Chongqing TH Diwei Cement Co., Ltd.**@	Registered and paid up capital RMB61,680,000	36%	Production and sales of cement and cement related products	
Chongqing TH Fuling Cement Co., Ltd.**+	Registered and paid up capital RMB44,000,000	45%	Production and sales of cement and cement related products	
Chongqing TH Special Cement Co. Ltd.**@	Registered and paid up capital RMB210,000,000	36%	Production and sales of cement and cement related products	
Guangan TH Cement Co., Ltd.**+	Registered and paid up capital RMB110,000,000	45%	Production and sales of cement and cement related products	
Guizhou Bijie Shui On Cement Co., Ltd.**@	Registered and paid up capital RMB48,000,000	80%	Manufacture and sale of cement	1
贵州暢達瑞安水泥有限公司**@	Registered and paid up capital RMB106,000,000	51%	Manufacture and sale of cement	1
Guizhou Dingxiao Shui On Cement Co., Ltd.**@	Registered and paid up capital RMB264,256,751	40.5%	Production and sales of cement and cement related products	
Guizhou Kaili Ken On Concrete Co., Ltd.**@	Registered and paid up capital RMB10,000,000	75%	Supply of ready mixed concrete	1
贵州凱里瑞安水泥有限公司**@	Registered and paid up capital RMB60,000,000	90%	Manufacture and sale of cement	1
贵州六礦瑞安水泥有限公司**@	Registered and paid up capital RMB110,000,000	30%	Manufacture and sale of cement	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

48. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES (continued)

Indirect jointly controlled entities	Issued and paid up share capital/registered capital	Effective percentage of issued share/registered capital held by the Group	Principal activities	Notes
Cement operations (continued)				
Guizhou Shuicheng Shui On Cement Co., Ltd.**@	Registered and paid up capital RMB200,000,000	31.5%	Production and sales of cement and cement related products	
貴州遵義瑞安水泥有限公司**@	Registered and paid up capital RMB92,000,000	80%	Manufacture and sale of cement	1
Lafarge Chongqing Cement Co., Ltd.**@	Registered and paid up capital RMB340,000,000	35.73%	Production and sales of cement and cement related products	
Lafarge Dujiangyan Cement Co., Ltd.**@	Registered and paid up capital RMB856,839,300	33.75%	Production and sales of cement and cement related products	
Nanchong T.H. Cement Co., Ltd.**+	Registered and paid up capital RMB15,000,000	45%	Manufacture and sale of cement	
Lafarge Shui On Cement Limited	2,089,199 ordinary shares of HK\$1 each	45%	Investment holding	
Nanjing Jiangnan Cement Co., Ltd.**@	Registered and paid up capital RMB120,000,000	60%	Manufacture and trading of cement	1
Panzhihua Jinsha Cement Co., Ltd.**	Registered and paid up capital RMB10,000,000	36%	Production and sales of cement and cement related products	
Yunnan Shui On Construction Materials Investment Holding Co., Ltd.**@	Registered and paid up capital RMB1,000,000,000	36%	Investment holding	
Yunnan State Assets Cement Chuxiong Co., Ltd.**	Registered and paid up capital RMB32,600,000	36%	Production and sales of cement and cement related products	
Yunnan State Assets Cement Dongjun Co., Ltd.**	Registered and paid up capital RMB260,000,000	36%	Production and sales of cement and cement related products	
Yunnan State Assets Cement Haikou Co., Ltd.**	Registered and paid up capital RMB54,556,806	36%	Production and sales of cement and cement related products	
Yunan State Assets Cement Honghe Co., Ltd.**	Registered and paid up capital RMB263,785,829	36%	Production and sales of cement and cement related products	
Yunnan State Assets Cement Jianchuan Co., Ltd.**	Registered and paid up capital RMB122,483,913	36%	Production and sales of cement and cement related products	
Yunnan State Assets Cement Kunming Co., Ltd.**	Registered and paid up capital RMB130,375,098	36%	Production and sales of cement and cement related products	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

48. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES (continued)

Indirect jointly controlled entities	Issued and paid up share capital/ registered capital	Effective percentage of issued share/ registered capital held by the Group	Principal activities	Notes
Property business				
Broad Wise Limited*	100 shares of US\$1 each	80%	Investment holding	2, 3
瀋陽中匯達房地產有限公司**	Registered and paid up capital US\$149,400,000	80%	Property development	2, 3
Eagle Fit Limited*	200 shares of US\$1 each	52.5%	Investment holding	2, 4
Prime Asset Investment Limited	1 ordinary share of HK\$1	52.5%	Investment holding	2, 4
北京啓夏房地產開發有限公司**+	Registered and paid up capital US\$91,000,000	52.5%	Property development	2, 4
Other businesses				
The Yangtze Ventures Limited#	1,000 ordinary shares of HK\$0.1 each	65.5%	Venture capital investments	2
The Yangtze Ventures II Limited#	1,000 ordinary shares of HK\$0.1 each	75.4%	Venture capital investments	2
On Capital China Fund Series A#	13,923 participating shares of US\$0.01 each	66.81%	Venture capital investments	2
On Capital China Fund Series B#	7,400 participating shares of US\$0.01 each	60.52%	Venture capital investments	2

* Incorporated in the British Virgin Islands

** Registered and operated in other regions of the PRC

Incorporated in the Cayman Islands

+ Wholly-foreign owned enterprises

◎ Equity joint venture

Notes:

1. The Group is under contractual arrangements to jointly control these entities with PRC partners. Accordingly, the Directors consider they are jointly controlled entities.
2. The respective boards of directors of these entities are jointly controlled by the Group and other investors. Accordingly, the Directors consider they are jointly controlled entities.
3. The Company acquired the remaining 57.12% shareholding in CCP, which became a wholly-owned subsidiary of the Group. Accordingly, the Group's interest in these companies changed from 40% at 31 December 2008 to 80% at 31 December 2009.
4. The companies were acquired/established by the Group during the year ended 31 December 2009.

49. PARTICULARS OF PRINCIPAL ASSOCIATES

The Directors are of the opinion that a complete list of the particulars of all associates will be of excessive length and therefore the following list contains only the particulars of principal associates of the Group at 31 December 2009 and 2008.

Indirect associates	Issued and paid up share capital/ registered capital	Effective percentage of issued share/ registered capital held by the Group	Principal activities
Richcoast Group Limited*	780 shares of US\$1 each	28.2%	Investment holding
Dalian Qiantong Science & Technology Development Co., Ltd.**@	Registered capital RMB800,000,000 and paid up capital RMB760,586,134	22%	Software development
Dalian Ruisheng Software Development Co., Ltd.**@	Registered capital RMB800,000,000 and paid up capital RMB760,586,134	22%	Software development
Dalian Delan Software Development Co., Ltd.**@	Registered and paid up capital RMB300,000,000	22%	Software development
Dalian Jiadao Science & Technology Development Co., Ltd.**@	Registered and paid up capital RMB300,000,000	22%	Software development
大連軟件園瑞安發展有限公司**	Registered and paid up capital RMB600,000,000	22%	Software development
大連軟件園瑞安開發有限公司**	Registered and paid up capital RMB600,000,000	22%	Software development

* Incorporated in the British Virgin Islands

** Registered and operated in other regions of the PRC

@ Equity joint venture

The end of the consolidated financial statements.

The statement below from the Company does not form part of the consolidated financial statements:

Readers of these consolidated financial statements are strongly encouraged to read the Management Discussion and Analysis set out in this annual report, which does not form part of the consolidated financial statements, to gain a fuller appreciation of the Group's financial results and situation in the context of its activities.

GROUP FINANCIAL SUMMARY

1. RESULTS

	Year ended 31 March 2006	Year ended 31 December 2006	Nine months		
	HK\$ million	HK\$ million	Year ended 2007	Year ended 31 December 2008	2009
Turnover	1,400	1,680	2,811	2,944	3,200
Profit before taxation	364	636	716	584	828
Taxation	(8)	(8)	(12)	(15)	(16)
Profit from continuing operations	356	628	704	569	812
Loss from discontinued operations	(5)	(6)	–	–	–
Profit for the year/period	351	622	704	569	812
Attributable to:					
Owners of the Company	315	602	702	562	807
Non-controlling interests	36	20	2	7	5
	351	622	704	569	812

2. ASSETS AND LIABILITIES

	At 31 March		At 31 December		
	2006	2006	2007	2008	2009
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Total assets	5,982	10,347	13,300	11,536	18,641
Total liabilities	(3,561)	(5,131)	(6,005)	(6,482)	(9,593)
	2,421	5,216	7,295	5,054	9,048
Equity attributable to owners of the Company	2,323	5,164	7,242	4,999	9,003
Non-controlling interests	98	52	53	55	45
	2,421	5,216	7,295	5,054	9,048

CORPORATE INFORMATION

BOARD

Executive Directors

Mr. Lo Hong Sui, Vincent (Chairman)
Mr. Choi Yuk Keung, Lawrence (Vice Chairman)
Mr. Wong Yuet Leung, Frankie (Chief Executive Officer)
Mr. Wong Kun To, Philip
Mr. Wong Fook Lam, Raymond (Chief Financial Officer)

Non-executive Director

Professor Michael Enright

Independent Non-executive Directors

Mr. Anthony Griffiths
Mr. Gerrit de Nys
Ms. Li Hoi Lun, Helen
Mr. David Eldon
Mr. Chan Kay Cheung
Mr. Tsang Kwok Tai, Moses

AUDIT COMMITTEE

Mr. Anthony Griffiths (Chairman)
Mr. Gerrit de Nys
Ms. Li Hoi Lun, Helen
Professor Michael Enright

REMUNERATION COMMITTEE

Mr. Anthony Griffiths (Chairman)
Mr. Gerrit de Nys
Ms. Li Hoi Lun, Helen
Professor Michael Enright
Mr. Lo Hong Sui, Vincent

NOMINATION COMMITTEE

Mr. Lo Hong Sui, Vincent (Chairman)
Mr. Wong Yuet Leung, Frankie
Professor Michael Enright
Mr. Anthony Griffiths
Mr. Gerrit de Nys
Ms. Li Hoi Lun, Helen

COMPANY SECRETARY

Ms. Tsang Yuet Kwai, Anita

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

34th Floor, Shui On Centre
6-8 Harbour Road, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street, Hamilton HM 11, Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai, Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
The Bank of East Asia, Limited
CITIC Ka Wah Bank Limited
BNP Paribas

STOCK CODE

983

WEBSITE

www.socam.com



瑞 安 建 業 有 限 公 司
SHUI ON CONSTRUCTION AND MATERIALS LIMITED

(Incorporated in Bermuda with limited liability)

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