

8 March 2010

## CHINA REAL ESTATE OPPORTUNITIES PLC

### PRELIMINARY RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2009

China Real Estate Opportunities plc (“CREO” or the “Company”), is an AIM-listed company established to acquire investment and development properties in China.

#### Highlights

- CREO’s portfolio was valued at CNY9.19 billion as at 31 December 2009 (GBP£836.9 million), up 4% in CNY terms for the 6 months from 30 June 2009 and up 7% in sterling terms since 30 June 2009.
- European Public Real Estate net asset value per share (“EPRA NAV per share”) declined by 14% in the 12 month period from 31 December 2008 largely due to currency movements but the second half of the year saw a 7% upturn in this measure from £10.62 as at 30 June 2009 to £11.37 as at 31 December 2009.
- Rental income was stable in local currency in the period despite lower average occupancy across the portfolio as the Company continued to achieve average rental uplifts of up to 5% on a square metre basis.
- Significant progress was made against the Company’s strategic objectives to refinance investment assets and strengthen its capital position through the disposal of non-core holdings:
  - A multi-currency three year loan equivalent to £27.72 million on improved terms was agreed for the refinancing of Treasury Building
  - The Company completed the sale of its effective 5% minority stake in the City Center 5 Development, for £8.6 million in June 2009. This represents an 8.6% premium to the most recent published valuation in local currency as at 31 December 2008.
  - Between November 2009 and February 2010 the Company disposed of its entire holding in RREEF, a Hong-Kong listed REIT for HKD118.28 million (£10.18m based on current exchange rates), a return of 36.9% on our original investment in HKD terms.
  - The Company disposed of its 50% stake in the Tangdao Bay Development based on a property value of RMB1.389bn representing a 10.9% premium to the most recent independent valuation in June 2009. Net cash proceeds from the transaction amount to £35.6 million at today’s exchange rates and will be received upon the completion of the standard regulatory procedures for the offshore repatriation of proceeds of domestic asset sales.
- Including proceeds from the Tangdao Bay disposal, cash holdings as at 31 December 2009 were just over £80 million.
- The Company has made a non-binding submission to the Singapore Exchange (“SGX”) to secure approval for admission to Singapore’s internationally recognised main board as a Business Trust so as to position the Company closer to its asset

base and potentially re-rate the shares in line with CREO's peer group listed in Asia. Conversion to a Singapore Business Trust, which would be subject to shareholder approval, would result in the Company being delisted from AIM.

- The Company has today published a circular to shareholders setting out the details of a Tender Offer to purchase shares at £3.30 per Share. The Company has invited all shareholders to tender shares and has committed a maximum of £15 million from its own cash resources to repurchase tendered shares. The closing date for the tender is on Monday, March 22 2010. Real Estate Opportunities plc, a 16.9% shareholder of CREO, has irrevocably undertaken to tender its shares.
- In addition, Matrix Corporate Capital LLP has been mandated by the Company to seek to procure third party investors to purchase tendered shares in a placing at £3.30 per share.

Ray Horney, Chairman of CREO, commented:

*"2009 has been an important year as the Company successfully applied its asset management expertise to deliver strong results in a competitive market whilst also positioning the Company for the future. Important milestones were reached such as the refinancing of the Treasury Building and the sale of the non-core stake in Tangdao Bay. The financial position of the Company has been considerably strengthened and the Board remains confident about the outlook for the Company"*

**CREO plc**

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## Chairman's statement

### *Introduction*

I am pleased to report on the progress of your Company for the 12 months to 31 December 2009. Your Company has continued to perform strongly operationally during the period while also taking actions to address the capital structure of the business and narrow the wide discount at which the Company's shares continue to trade.

For the year ended 31 December 2009, European Real Estate Association ("EPRA") net asset value per share was £11.37, representing an increase of 7% since 30 June 2009 and a 14% decrease year on year. As at 31 December 2009 exchange rates, the aggregate gross value of the portfolio increased by over 7% to £837 million (30 June 2009: £780 million) while in local currency terms, the aggregate gross value of the CREO portfolio grew by 4% since 30 June to RMB9.188 billion. These amounts exclude the 31 December 2009 transaction to dispose of the Company's interest in the Tangdao Bay property. This growth highlights the continued strength of the portfolio, particularly in a challenging Shanghai market during the year.

As at 31 December 2009, bank borrowings amounted to £316 million (31 December 2008: £344 million) resulting in gearing of 34% on total assets and 44% on the investment assets. Cash holdings as at 31 December 2009 were £48 million which exclude the proceeds of £35.6 million from the Tangdao Bay disposal.

### *Portfolio*

Whilst the Chinese economy continued to strengthen throughout the year, 2009 proved to be a challenging year on the office leasing front with market vacancy rates in Shanghai peaking at 14.2% in Q1 before reducing to 11.4% by year end. The retail sector however, continued to perform strongly, aided by the resurgence of the Chinese consumer and I refer shareholders to the Investment Manager's report for more detail on the Chinese economy. Against this backdrop, the Company delivered a strong performance.

As previously outlined, the Company's core strategy has been to reposition its assets in response to tenant and consumer demand and maximize rental income as well as achieve capital growth. To that end, the Company has made significant progress in relation to its investment portfolio in 2009 through strong asset management, tenant mix and configuration as well as the completion of its extensive refurbishment programme of Central Plaza. The Company renewed a significant number of leases this year as well as attracting a number of new tenants including Metlife Insurance, Prudential Insurance, Johnson & Johnson and Bank of Beijing, thus enhancing CREO's overall tenant mix. As a result, the Company achieved increases in gross rental income on a per square metre basis of between 2 and 5% across the portfolio's investment assets and ended the year with occupancy of 85%. I am therefore pleased to report gross rental income of £29 million for the year to 31 December 31 2009, compared to £26 million in the prior year, representing an increase of 11%.

Significant progress was also made on the Company's development portfolio during the period as CREO anticipates commencement in 2010 of City Center Extension, the large development site adjacent to the existing City Center asset. On completion, City Center and City Center Extension will form an integrated office and shopping centre facility (256,888sqm on completion) and will comprise 7 floors of retail and 13 floors of grade A office space constructed to LEED (Leading in Energy and Environment Design) Gold standard, one of very few commercial properties in Shanghai to recognize the emerging importance of sustainable development. The development has already attracted significant tenant interest, particularly from international retailers and the Board believes that the development of this

asset will unlock significant additional value and reversionary income upon completion, scheduled for 2012.

#### *Refinancing*

The Company also made significant progress in the first phase of its investment asset refinancing programme with the completion of a loan facility with CITIC Ka Wah Bank in December 2009. This replaced, on improved terms, the existing loan with Credit Suisse in respect of the Treasury Building in Shanghai, which had been due to expire in March 2010. Based on current discussions, the Company is confident that there is significant interest from a number of local and regional banks to fulfill the Company's City Center asset refinancing requirement in late 2010.

#### *Disposals*

CREO recently announced the disposal of its 50% interest in the Tangdao Bay joint venture development. The interest was sold for a 10.9% premium to the most recent June 2009 independent valuation and net cash proceeds from the transaction, based on current exchange rates amount to £35.6 million subject to completion of the standard regulatory procedures. This disposal follows a consistent approach that the Company has adopted in recent months to realise shareholder value, indicate relevance of the company's net asset value and generate cash through disposal of non-strategic holdings. Other non-core disposals include the Company's interest in City Center 5 development in June 2009 at an 8.9% premium to valuation as at 31 December 2008 and the sell-down of the holding in China Commercial Trust – a HK listed REIT during the second half.

#### *Tender Offer*

Owing to the continued wide discount at which the company's shares trade, in January 2010 the Company announced that it proposed to make up to £15 million available from its existing cash resources to fund a tender offer for its own shares once the Tangdao Bay transaction has been completed and the sale proceeds received. Today, a tender at £3.30 per share has been announced in respect of the Company's own shares and the Company is also seeking to procure third party purchasers for tendered shares or to purchase those shares itself. I draw shareholders' attention to that announcement for further detail.

Recognising that the Chairman and Treasury Holdings Directors are potentially conflicted, a committee of independent Directors was established in dealing with matters in relation to the Tender Offer.

#### *Asian Listing*

With a view to further narrowing the gap between net asset value and share price, the Board has been considering for some time a number of options intended to widen the universe of potential shareholders. This review has included obtaining a listing for the Company on a recognised stock exchange in Asia, so as to position the Company closer to its asset base and potentially re-rate the shares in line with CREO's Asian peer group, which generally trade at a very low discount or slight premium to NAV. This will, in time, also enable the Company to participate in the strong capital flows experienced in Asia.

Accordingly a non-binding submission has been made to the Singapore Exchange ("SGX") and the Monetary Authority of Singapore to secure approval for admission to Singapore's internationally recognised main board as a Business Trust. This structure provides greater operational and investment flexibility than Real Estate Investment Trusts with regard to matters such as development limits and levels of gearing. This flexibility should enable CREO to deliver stronger growth and higher accretive earnings than its peer group. Conversion to a Singapore Business Trust, which would be subject to shareholder approval, would result in the Company being delisted from AiM.

The Company continues to communicate with shareholders on the issue and subject to feedback from the SGX, the Company intends to proceed with this proposal by June 2010.

*Outlook*

The Board is very pleased with the portfolio's strong operational performance during the year as well as its strengthened cash position. The Board believes the Company is now well placed to address its capital structure through the tender offer and its proposed Asian listing this year. Accordingly, the Board remains optimistic about the outlook for 2010.

Ray Horney  
Chairman

## **Investment Manager's Report**

### *Macro economic environment*

China reported 8.7% GDP growth for the year ended 31 December 2009 and has now progressed to being the 2<sup>nd</sup> largest economy in the world behind only the US and overtaking Germany during 2009 to assume the mantle of the world's largest exporter.

This level of economic activity has been achieved during a year in which economies worldwide faced significant challenges as the effects of the global financial crisis which took hold during 2008 continued.

The decision of the Chinese government in November 2008 to provide significant stimulus through the provision of a RMB4 trillion package of measures provided the basis for a surge in economic activity and more importantly a foundation stone for the domestic economy, spear-headed by retail sales which, as at 31 December 2009 increased 16.9% for the year nationwide. This was supported by growth in disposable income for urban and rural residents of 9.8% and 8.2% respectively.

This stimulus package was further supported by a major increase in liquidity delivered by China's banking system. The multiple effects included:

- a reduction in the central bank reserve requirement in late 2008 from its peak of 17.5% to 15.5% in early 2009;
- approval by the central and various provincial governments of major infrastructure projects; and
- a loosening of government policy in respect to the residential sector.

China witnessed total loans for 2009 reaching RMB9.6 trillion representing a 96% increase over 2008.

Ultimately this activity spilled over into the lagging trade sector which by year end showed that:

- Whilst exports across the year fell 16.9% compared to 2008 the months of December 2009 and January 2010 reflected a turnaround with year-on-year increases of 17.7% and 21.0% respectively
- Imports followed a similar trend, down 11.2% on an annual basis compared to 2008 but a year end rebound of 55.9% occurred in December followed by a continuation of the trend in January 2010 of 85.5%.

This strong rebound in 2009 coming off the year end lows of 2008, where annualised GDP growth for the 4<sup>th</sup> quarter was 6.8% (Q4 2009 10.7%), has also given rise to concerns regarding bubble effects in various sub-markets, most notable the residential sector, which recorded a 44.9% increase in sales volume (square meters sold) over 2008. The government has been consistent in its message to adopt a prudent approach on the basis that the dangers of the global economic crisis have not passed, however the government will also be responsible for reining in those sectors it considers to be over-heating. In this regard in early 2010 the government has:

- Increased the reserve requirement by 100 basis points from 15.5% to 16.5% to remove the excess liquidity in the system;
- Increased the minimum deposit on certain residential transactions from 20% to 40%
- Retained a neutral stance on currency appreciation despite significant pressure from both America and the EU

Therefore in respect of CREO's activities for 2010 the continuation of a rebound in Chinese economic activity is likely to positively impact the office rental market as firms seek to expand their businesses in China and the Asian region, whilst the strength of the consumer is likely to remain throughout the year, under-pinning the plans for the City Center redevelopment and the strength of the existing retail assets generally.

*Investment portfolio*

CREO's consistent strategy has been to use its international expertise in investment property and asset management and apply this model to its Chinese portfolio. To that end, the Company focused strongly on intense asset management of its investment portfolio, which represents over 75% of the Company's total portfolio, to strongly position the portfolio to achieve continued longer term growth.

This included the strategic upgrading and refurbishment of some existing investment assets, as well as closely managing existing and prospective tenant relationships as over 55% of leases expired during the year. This continued intense focus has yielded positive results in relation both to rent renewals and new lettings as well as achieving consistently high occupancy rates across the portfolio. Specifically, the property portfolio witnessed 212 lease expiries in 2009, representing more than 50% of its entire tenancy base. Approximately 55% of these leases were renewed, whilst a further 15% were moved out of the Central Plaza property as part of the refurbishment and re-positioning programme. Sixty-six new tenants, amounting to 28% of lease expiries, entered into leases including Metlife Insurance, Prudential Insurance and Johnson & Johnson as highlighted in the Chairman's report. Overall, this resulted in portfolio occupancy (excluding space under refurbishment) at 31 December 2009 of 85%, (office 79%; retail 97%) representing a reduction of 6% over 31 December 2008 but translated into increases in gross rental income on a per square metre basis as follows:

<i>Investment Property</i>	<i>Average daily rent per sqm (RMB)</i>		
	<i>31 December 2009</i>	<i>31 December 2008</i>	<i>Increase over period</i>
<i>City Center Office</i>	5.32	5.05	5%
<i>City Center Retail</i>	6.11	5.97	2%
<i>Central Plaza</i>	6.33	6.16	3%
<i>Treasury Building</i>	6.18	6.18	0%

The Central Plaza refurbishment programme will be completed by April 2010 and has been well received by existing and prospective tenants and the intention to reposition the asset and deliver significant reversionary rent is being realised.

*Development portfolio*

Significant progress was also made in 2009 on the Company's main development asset, City Center Extension, the large development site adjacent to the existing asset, City Center.. The site is cleared and available for redevelopment and the master layout planning submission has been made to the Government and is awaiting approval. It is expected that all the necessary construction approvals will be received by June 2010 and construction can begin, subject to financing, during the 3<sup>rd</sup> quarter of the year. The development has already attracted significant tenant interest, particularly from international retailers looking to expand

in China to anchor the scheme due to the asset's key location and lack of quality retail supply in the market. In addition, a number of local and regional banks have expressed interest in financing the project as part of the City Center refinancing requirement and the Company is confident that it will be able to fulfill the Company's City Center asset refinancing requirement later this year.

*Financial review*

Gross rental income amounted to £29 million in 2009, while administration expenses were £21 million for the 12 months to 31 December 2009. Net finance expenses decreased to £2 million in the period and resulted in a pre-tax profit of £20 million.

As highlighted in the Chairman's report, the total property portfolio as presented in the accounts grew to £837 million compared to £780 million as at 30 June 2009 while decreasing by 8% year on year on a like for like basis as the prior year benefited significantly from the strength of the CNY against sterling.

As at 31 December 2009, bank borrowings amounted to £316 million (31 December 2008: £344 million) resulting in gearing of 34% on total assets and 44% on the investment assets.

## **Principal risks and uncertainties**

*for the next 12 months*

The principal risks and uncertainties that face the business for the current financial year include the following: economy, financial sector, future cash flows and political and regulatory environment.

**Economy:** Although the Chinese market has been one of the best performing economies over the last 24 months, delivering GDP growth of over 8% in 2009, the international macro environment continues to be difficult with only tentative recovery underway. As a direct consequence of this, lower tenant demand and defaults from international tenants could pose a risk to the Group. Failure to re-let investment properties would also have another adverse impact on property valuations. The weakness in demand may also impact CREO's development assets and agreeing new leases for current developments, including developments near completion. However, CREO has a well diversified tenant base through strong asset management, with average portfolio occupancy of over 85% as at 31 December 2009. To date, there has been no evidence of these risks materialising.

**Financial sector:** Many international lenders have withdrawn from the Chinese market in the past 18 months. In contrast, local and regional banks have increased lending substantially in the period and the Company has developed relationships with a number of local banks in advance of any of its facilities becoming due as, up until 2009, all of CREO's bank loans were with international lenders. A 3 year loan facility to refinance the Treasury Building was completed in December 2009 on better terms with CITIC Ka Wah Bank in Hong Kong, which has given the Company confidence about its ability to refinance its other bank loans due in 2010 and 2011.

**Liquidity:** A review of the Group's business activities is set out in the Chairman's statement. In order to satisfy themselves regarding future trading, forecast cash requirements and the projected sources of cash for the business, the Directors have made enquiries about the assumptions used in making the cash flow projections for the coming [12] months. Specifically:

- (a) Rental income flow remains strong, occupancy remains high and tenant renewals continue all of which underpin the forecast income levels
- (b) Banking relationships remain strong and we are currently operating within the covenant guidelines
- (c) It would require a substantial decline in property valuations to trigger pressure points with banking covenants or financing arrangements

**Political & Regulatory Environment:** One of the risks to the CREO business relates to the political and regulatory environment in China. Historically the Chinese authorities have used the banking sector through loan quotas to slow economic activity and whilst the reverse is occurring currently, this could change in the future. However, we believe that the Company's low loan to value ratios provide flexibility within its financing structure.

**China Real Estate Opportunities plc**  
**Consolidated and company statement of financial position**  
**As at 31 December 2009**

	Note	<u>31 Dec 2009</u>		<u>31 Dec 2008</u>		<u>1 Jan 2008</u>	
		<b>Group</b> <b>GBP'000</b>	<b>Company</b> <b>GBP'000</b>	Group GBP'000 (Restated)	Company GBP'000	Group GBP'000 (Restated)	Company GBP'000
<b>Assets</b>							
<b>Non-current assets</b>							
Investment properties	10	711,295	-	763,558	-	497,133	-
Properties under development	11	125,615	-	149,797	-	87,280	-
Property, plant and equipment		670	-	731	-	567	-
		<u>837,580</u>	<u>-</u>	<u>914,086</u>	<u>-</u>	<u>584,980</u>	<u>-</u>
<b>Other non-current assets</b>							
Investment in subsidiaries	12	-	214,770	-	229,215	-	216,709
Investment in joint venture	13(a)	-	-	40,482	-	21,504	-
Deferred tax assets	14	361	-	1,136	-	254	-
		<u>361</u>	<u>214,770</u>	<u>41,618</u>	<u>229,215</u>	<u>21,758</u>	<u>216,709</u>
<b>Current assets</b>							
Financial assets available-for-sale	15	11,632	4,259	22,860	14,741	2,567	-
Other investment	13(b)	34,250	-	-	-	-	-
Trade and other receivables	16	5,905	80	9,255	5,142	11,542	3,538
Restricted cash	17	10,273	-	18,356	-	17,786	-
Cash and cash equivalents	17	37,753	6,018	66,640	10,450	79,210	39,828
		<u>99,813</u>	<u>10,357</u>	<u>117,111</u>	<u>30,333</u>	<u>111,105</u>	<u>43,366</u>
<b>Total assets</b>		<u>937,754</u>	<u>225,127</u>	<u>1,072,815</u>	<u>259,548</u>	<u>717,843</u>	<u>260,075</u>

**China Real Estate Opportunities plc**  
**Consolidated and company statement of financial position**  
**As at 31 December 2009 (continued)**

	Note	31 Dec 2009		31 Dec 2008		1 Jan 2008	
		Group GBP'000	Company GBP'000	Group GBP'000 (Restated)	Company GBP'000	Group GBP'000 (Restated)	Company GBP'000
<b>Liabilities</b>							
<b>Non-current liabilities</b>							
Interest-bearing loans and borrowings	21	94,268	-	344,080	-	246,635	-
Deferred tax liabilities	14	139,831	-	153,158	-	92,835	-
		<u>234,099</u>	<u>-</u>	<u>497,238</u>	<u>-</u>	<u>339,470</u>	<u>-</u>
<b>Current liabilities</b>							
Interest-bearing loans and borrowings	21	221,557	-	-	-	-	-
Trade and other payables	22	52,813	31,888	90,102	56,120	37,564	16,841
Tax payable		-	-	214	-	9,500	-
		<u>274,370</u>	<u>31,888</u>	<u>90,316</u>	<u>56,120</u>	<u>47,064</u>	<u>16,841</u>
<b>Total liabilities</b>		<u>508,469</u>	<u>31,888</u>	<u>587,554</u>	<u>56,120</u>	<u>386,534</u>	<u>16,841</u>
<b>Net assets</b>		<u>429,285</u>	<u>193,239</u>	<u>485,261</u>	<u>203,428</u>	<u>331,309</u>	<u>243,234</u>
<b>Equity</b>							
Stated capital	18	260,953	260,953	248,016	248,016	250,858	250,858
Reserves	18	167,450	8,141	253,766	21,054	16,295	5,407
Retained earnings / (accumulated losses)	18	882	(75,855)	(16,521)	(65,642)	64,156	(13,031)
		<u>429,285</u>	<u>193,239</u>	<u>485,261</u>	<u>203,428</u>	<u>331,309</u>	<u>243,234</u>
<b>Total equity attributable to equity holders of the Company</b>		<u>429,285</u>	<u>193,239</u>	<u>485,261</u>	<u>203,428</u>	<u>331,309</u>	<u>243,234</u>
<b>Net assets value per share:</b>							
<b>Basic</b>	20	<u>GBP8.67</u>	<u>GBP3.90</u>	<u>GBP10.17</u>	<u>GBP4.26</u>	<u>GBP6.54</u>	<u>GBP4.80</u>
<b>Diluted</b>	20	<u>GBP8.51</u>	<u>N/A</u>	<u>GBP9.94</u>	<u>N/A</u>	<u>GBP6.46</u>	<u>GBP4.78</u>
<b>Diluted EPRA</b>	20	<u>GBP11.37</u>	<u>N/A</u>	<u>GBP13.24</u>	<u>N/A</u>	<u>GBP8.34</u>	<u>N/A</u>

**Consolidated and company income statement**  
**For the year ended 31 December 2009**

	Note	Year ended 31 Dec 2009		Year ended 31 Dec 2008	
		Group GBP'000	Company GBP'000	Group GBP'000 (Restated)	Company GBP'000
<b>Gross rental income</b>	3	28,976	-	26,121	-
<b>Net rental and related income</b>	3	27,630	-	25,295	-
Valuation gains on investment properties and properties under development	10,11	4,844	-	38,134	-
Administrative expenses	5	(20,977)	(10,627)	(66,224)	(61,274)
Other income	6	14,918	4,251	19	18
<b>Net operating profit/(loss) before net financing costs</b>		26,415	(6,376)	(2,776)	(61,256)
Financial income	7	27,293	1,307	10,843	9,679
Financial expenses	7	(29,393)	(5,144)	(83,456)	(1,034)
<b>Net financing (expenses)/income</b>		(2,100)	(3,837)	(72,613)	8,645
Share of the (loss)/profit of joint venture	13(a)	(4,191)	-	6,875	-
<b>Profit/(loss) before tax</b>		20,124	(10,213)	(68,514)	(52,611)
Income tax expense	8	(2,274)	-	(11,763)	-
<b>Profit/(loss) for the year</b>		17,850	(10,213)	(80,277)	(52,611)
<b>Attributable to:</b>					
Equity holders of the Company		17,850	(10,213)	(80,277)	(52,611)
<b>Earnings/(loss) per share:</b>					
<b>Basic</b>	9	GBP0.37		(GBP1.58)	
<b>Diluted</b>	9	GBP0.36		N/A	

**Consolidated statement of comprehensive income**  
**For the year ended 31 December 2009**

	Note	Year ended 31 Dec 2009		Year ended 31 Dec 2008	
		Group GBP'000	Company GBP'000	Group GBP'000 (Restated)	Company GBP'000
<b>Profit/(loss) for the year</b>		17,850	(10,213)	(80,277)	(52,611)
<b>Other comprehensive income</b>					
Currency translation differences	18(b)	(73,850)	-	221,424	-
Revaluation of financial assets available-for-sale	18(e)	210	210	383	383
<b>Total comprehensive income for the year</b>		<u>(55,790)</u>	<u>(10,003)</u>	<u>141,530</u>	<u>(52,228)</u>
<b>Attribute to:</b>					
Equity holders of the Company		<u>(55,790)</u>	<u>(10,003)</u>	<u>141,530</u>	<u>(52,228)</u>

**Consolidated statement of changes in equity**  
**For the year ended 31 December 2009**

	Stated capital account GBP'000	Trans- lation reserve GBP'000	Share option reserve GBP'000	Fair value reserve GBP'000	PRC statutory reserve GBP'000	Retained earnings/ (accumulated losses) GBP'000 (Restated)	Total GBP'000
<b>Balance at 1 January 2008</b>	250,858	10,888	5,407	-	-	64,156	331,309
Total comprehensive income for the year	-	221,424	-	383	-	(80,277)	141,530
Transfer	-	(316)	-	-	716	(400)	-
Issue of new shares	3,521	-	-	-	-	-	3,521
Purchase of own shares	(7,175)	-	-	-	-	-	(7,175)
Equity-settled share-based transactions	-	-	15,986	-	-	-	15,986
Share options exercised	812	-	(722)	-	-	-	90
<b>Balance at 31 December 2008</b>	<b>248,016</b>	<b>231,996</b>	<b>20,671</b>	<b>383</b>	<b>716</b>	<b>(16,521)</b>	<b>485,261</b>
Total comprehensive income for the year	-	(73,850)	-	210	-	17,850	(55,790)
Transfer	-	-	-	-	447	(447)	-
Issue of new shares	13,792	-	(13,792)	-	-	-	-
Purchase of own shares	(922)	-	-	-	-	-	(922)
Equity-settled share-based transactions	-	-	729	-	-	-	729
Share options exercised	67	-	(60)	-	-	-	7
<b>Balance at 31 December 2009</b>	<b>260,953</b>	<b>158,146</b>	<b>7,548</b>	<b>593</b>	<b>1,163</b>	<b>882</b>	<b>429,285</b>

**Consolidated statement of cash flows**  
**For the year ended 31 December 2009**

	<b>Year ended 31 Dec 2009 Group GBP'000</b>	<b>Year ended 31 Dec 2008 Group GBP'000 (Restated)</b>
<b>Operating activities</b>		
Profit /(loss) for the year	17,850	(80,277)
Change in fair value of investment properties	(4,844)	(38,134)
Equity-settled share-based transactions	729	2,194
Equity-settled performance fee	-	13,792
Depreciation of properties, plant and equipment	94	89
Net financial expenses	2,100	72,613
Changes in fair value of financial assets available-for-sale	-	329
Cost of call option written off	-	1,544
Share of loss/(profit) of joint venture	4,191	(6,875)
Investment gains	(14,904)	-
Income tax expense	2,274	11,763
	<hr/> 7,490	<hr/> (22,962)
Income tax paid	(2,157)	(7,410)
(Increase)/decrease in trade and other receivables	(1,490)	7,136
(Decrease)/increase in trade and other payables	<hr/> (20,133)	<hr/> 27,613
<b>Cash (used)/generated in operating activities</b>	<hr/> <b>(16,290)</b>	<hr/> <b>4,377</b>
<b>Investment activities</b>		
Acquisition of other investment	-	(19,173)
Increase in restricted cash	7,051	4,573
Addition to tangible assets	(2,934)	(3,916)
Net proceeds from disposal of investments	14,932	3,287
Purchase of call option	-	(1,544)
Interest received	1,450	2,706
	<hr/> 1,450	<hr/> 2,706
<b>Cash flows (used)/generated in investing activities</b>	<hr/> <b>20,499</b>	<hr/> <b>(14,067)</b>

**Consolidated statement of cash flows**  
**For the year ended 31 December 2009 (continued)**

	<b>Year ended 31 Dec 2009 Group GBP'000</b>	<b>Year ended 31 Dec 2008 Group GBP'000 (Restated)</b>
<b>Financing activities</b>		
Proceeds from bank borrowings	27,671	-
Repayment of bank borrowings	(25,719)	-
Proceeds from share options exercised	7	90
Purchase of own shares	(6,047)	(2,050)
Interest paid	(25,300)	(19,640)
	<hr/>	<hr/>
<b>Cash flows used in financing activities</b>	(29,388)	(21,600)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net decrease in cash and cash equivalents	(25,179)	(31,290)
Cash and cash equivalents at the beginning of the year	66,640	79,210
Effect of exchange rate fluctuations	(3,708)	18,720
	<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	<u>37,753</u>	<u>66,640</u>

The effect of exchange rate fluctuations on cash held in 2009 mainly arose from cash and cash equivalents held by the Group denominated in US Dollars (USD), Chinese Yuan (RMB), Hong Kong Dollars (HKD) and Euro (EUR) as a result of the depreciation of those currencies against Pound Sterling (GBP).

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009**

China Real Estate Opportunities plc (the Company) is domiciled in Jersey. The address of the Company's registered office is Whiteley Chambers, Don Street, St Helier, Jersey.

The Company and its subsidiaries (together referred to as "the Group" and individually as "the Group entities") are primarily involved in commercial real estate investment and development in the People's Republic of China (the PRC). The Company's principal objective is to achieve capital growth from a portfolio of properties in the PRC, focusing on large-scale development opportunities for income-producing assets such as office, logistics and retail properties. The investment portfolio concentrates on the commercial sector where the Directors believe there is greater growth potential as compared with other sectors.

**1. Significant accounting policies**

The following accounting policies have been applied consistently by the Group entities and the Group's interest in a jointly controlled entity in dealing with items which are considered material in relation to the Company and its consolidated financial statements, except for a change in accounting policy discussed in Note 1(e) below and Note 2.

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

**(b) Basis of preparation**

These consolidated financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented in pounds sterling has been rounded to the nearest thousand.

The financial statements are prepared on the historical cost basis except for the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial assets available-for-sale, other investment, investment properties and properties under development.

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

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(b) Basis of preparation (continued)**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Notes 10 and 29.

As at 31 December 2009, the Group has a net current liability of GBP174.6 million. The major items of the current liabilities are loans borrowed from commercial banks of USD236.5 million and RMB820 million, which will fall due in October 2010. The Directors are currently in negotiation with several commercial banks and are of the view that the Group will be able to secure new banking facilities to refinance the above loans when they fall due. Furthermore, Treasury Holdings China Limited (THCL), a related party of the Company (Note 27) has agreed not to request the Company immediately settle the remaining outstanding balance of the 2008 performance fee, which totalled GBP12.6 million as at 31 December 2009, and to accept settlement of the debt when the Company has the financial resources to settle. On this basis, the consolidated financial statements of the Group are prepared on a going concern basis.

As at 31 December 2009, the Company has a net current liability of GBP21.5 million. Included in the current liabilities of the Company are amounts due to its wholly-owned subsidiary of GBP14.6 million and amounts due to THCL. On the basis that THCL has given the above comfort to the Company and the Company is able to control the timing of settlement of the amounts due to its wholly-owned subsidiary, the financial statements of the Company are prepared on a going concern basis.

**(c) Basis of consolidation**

**(i) Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(c) Basis of consolidation (continued)**

(ii) Joint Ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised income and expenses of jointly controlled entities on an equity-accounted basis.

(iii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Investments by the Company

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

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**(d) Investment properties**

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued, values the properties every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(d) Investment properties (continued)**

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment properties is accounted for as described in accounting policy (n).

When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property, and is measured based on the fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

When the Group begins to redevelop an existing investment property with a view to resell, the property is transferred to trading properties and held as a current asset. The property is re-measured to fair value as at the date of transfer with any gain or loss taken to profit or loss. The re-measured amount becomes the deemed cost at which the property is then carried in trading properties.

**(e) Properties under development**

Property that is being constructed or developed for future use as investment property is classified as properties under development. This is recognised initially at cost but is subsequently re-measured to fair value at each reporting date. Any gain or loss on re-measurement will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. On completion, the property is transferred to investment property with any final difference on re-measurement accounted for in accordance with the foregoing policy on investment properties.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditure for the development qualifying as acquisition costs are capitalised.

Previously, properties under development were carried at fair value, with valuation gains and losses recorded in the revaluation reserve in the equity and the profit or loss respectively. An amendment to IFRS resulted in changes in the Group's accounting policies regarding the accounting treatment for properties under development. The financial impact of this change is described in Note 2(a).

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(f) Property, plant and equipment**

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (see (iv) below) and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in the income statement.

(ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognised directly in equity. Any loss is recognised immediately in the income statement.

(iii) Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(f) Property, plant and equipment (continued)**

(iv) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives are as follows:

Buildings situated on leasehold land	20 years
Fixtures, fittings and equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

**(g) Land use rights**

Land use rights represent lease prepayments for acquiring rights to use land in the PRC with a period of 40-50 years. Land use rights granted with consideration are recognised initially at acquisition cost. Land use rights are classified and accounted for in accordance with the intended use of the properties erected on the related land.

For investment properties and properties under development, the corresponding land use rights are classified and accounted for as part of the investment properties and properties under development respectively, and are carried at fair value as described in Notes 10 and 11.

For properties that are developed for sale, the corresponding land use rights are classified and accounted for as part of the properties.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(h) Foreign currency**

**(i) Foreign currency transactions**

Transactions in foreign currencies are translated into the respective functional currencies of the Group's entities at the spot foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the respective functional currencies at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

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

**(ii) Financial statements of foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to pounds sterling at the foreign exchange rates ruling at the balance sheet date. The income and expenses of foreign operations are translated to pounds sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in equity in the translation reserve.

**(iii) Net investment in foreign operations**

Exchange differences arising from the translation of the net investment in foreign operations are taken to the translation reserve in equity. They are released into the income statement upon disposal.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(i) Impairment**

**(i) Financial assets**

All financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than investment properties, properties under development and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(i) Impairment (continued)**

**(ii) Non-financial assets (continued)**

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use and that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss on other assets is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(j) Share capital**

**(i) Ordinary share capital**

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction, net of tax, in equity from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

**(ii) Repurchase of share capital**

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are cancelled and the cost of repurchase is deducted from stated capital account.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(j) Share capital (continued)**

(iii) Dividends

Ordinary dividends are recognised as a liability in the period in which they are approved by the shareholders in a general meeting and declared.

**(k) Interest-bearing borrowings**

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

**(l) Share-based payments**

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the grant date. The fair value of the equity-settled share-based payments determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value of share options is measured using the binomial option pricing method. The expected life is adjusted, based on management's best estimate, for effects of behavioural considerations. Share-based payment arrangements in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiary in the Company's balance sheet which is eliminated on consolidation.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(m) Provisions and contingent liabilities**

**(i) Provisions and contingent liabilities**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(ii) Other provisions and contingent liabilities**

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

**(n) Rental income from operating leases**

Rental income from investment property leased out under an operating lease is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

**(o) Interest income**

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the assets.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(p) Borrowing costs**

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate.

**(q) Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for temporary differences relating to investments in subsidiaries to the extent that they will probably not be reversed in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(r) Related parties**

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(s) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's most senior executive management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (See Note 2 (b)).

**(t) Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in unlisted equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

*Available-for-sale financial assets*

The Group's investments in certain equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(u) Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in the income statement.

The fair value of interest rate swaps/cap and currency swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

**(v) Other receivables**

Trade and other receivables are stated at their cost less impairment losses.

**(w) Operating leases**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

**(x) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations were not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements.

- Revised IFRS 1, First-time adoption of International Financial Reporting Standards (effective date: financial year beginning 1 July 2009)

Basis for conclusions on revised IFRS 1, First-time adoption of International Financial Reporting Standards

Implementation guidance on revised IFRS 1, First-time adoption of International Financial Reporting Standards

- Revised IFRS 3, Business combinations (applies to business combinations for which the acquisition date is on or after the beginning of first annual reporting period beginning on or after 1 July 2009)
- Amendment to IAS 27, Consolidated and separate financial statements (effective date: financial year beginning 1 July 2009)

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(x) New standards and interpretations not yet adopted (continued)**

- Amendment to IAS 39, Financial instruments: Recognition and measurement - Eligible hedged items (effective date: financial year beginning 1 July 2009)
- IFRS 17, Distribution of non-cash assets to owners (effective date: financial year beginning 1 July 2009)
- IFRIC 18, Transfer of assets from customers (effective date: applies to transfers of assets from customers received on or after 1 July 2009)
- Amendments to IFRS 5, Non-current assets held for sale and discontinued operations as a result of Improvements to International Financial Reporting Standards 2008 (effective date: for annual financial statements covering periods beginning on or after 1 July 2009)
- Improvements to IFRSs 2009 (effective date: for annual financial statements covering periods beginning on or after 1 July 2009 or 1 January 2010)
- Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards – Additional exemptions for first time adopters (effective date: for annual financial statements covering periods beginning on or after 1 January 2010)
- Amendments to IFRS 2, Share-based payment - Group cash-settled share-based payment transactions (effective date: for annual financial statements covering periods beginning on or after 1 January 2010)
- Amendment to IAS 32, Financial instruments: Presentation - Classification of rights issues (effective date: for annual financial statements covering periods beginning on or after 1 February 2010)
- IFRIC 19, Extinguishing financial liabilities with equity instruments (effective date: for annual financial statements covering periods beginning on or after 1 July 2010)
- Amendment to IFRS1, First time adoption of International Financial Reporting Standards-Limited exemption from comparative IFRS 7 disclosure for first-time adopters (effective date: for annual financial statements covering periods beginning on or after 1 July 2010)
- Revised IAS 24, Related party disclosures (effective date: for annual financial statements covering periods beginning on or after 1 January 2011)

- Amendments to IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement (effective date: for annual financial statements covering periods beginning on or after 1 January 2011)
- IFRS 9, Financial instruments, Basis for conclusions on IFRS 9 , Amendments to other IFRSs and guidance on IFRS 9 (effective date: for annual financial statements covering periods beginning on or after 1 January 2013)

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**1. Significant accounting policies (continued)**

**(x) New standards and interpretations not yet adopted (continued)**

The standards and interpretations addressed above will be applied for the purposes of the Group financial statements with effect from the dates listed.

The Directors have confirmed that the above IFRSs and interpretations do not have a significant impact on how the results of operations and financial position of the Group for the year ended 31 December 2009 are prepared and presented. These IFRSs and interpretations may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

**2. Changes in accounting policies**

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

- IFRS 8, Operating segments
- IAS 1 (revised 2007), Presentation of financial statements
- Improvements to IFRSs (2008)
- Amendments to IFRS 27, Consolidation and separate financial statements-cost of an investment in a subsidiary, jointly controlled entity or associate
- Amendments to IFRS 7, Financial instruments: Disclosures-improving disclosures about financial instruments
- IAS 23 (revised 2007), Borrowing costs
- Amendments to IFRS 2, Share-based payments-vesting conditions and cancellations
- IFRIC 15, Agreements for the construction of real estate
- IFRIC 16, Hedges of a net investment in a foreign operation

The amendments to IAS 23 and IFRS 2 and interpretations IFRIC 15 and IFRIC 16 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**2. Changes in accounting policies (continued)**

**(a) Accounting for properties under development**

“Improvements to IFRSs (2008)” amends IAS 40 “Investment Property”. According to the amendment, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of the property’s completion. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. This amendment resulted in changes in the Group’s accounting policies regarding the accounting treatment for properties under development. Previously, such properties were carried at fair value, with valuation gains and losses recorded in the revaluation reserve in the equity and the profit or loss respectively. The changes in accounting policy are applied when the fair value of the properties under development first becomes reliably measurable, which is from the first period they are presented in the financial statements. The corresponding figures for the previous year or year-end have been restated. The change in accounting policy had the following impact on the financial statements:

	<b>Year ended 31 Dec 2009 GBP’000</b>	<b>Year ended 31 Dec 2008 GBP’000</b>
<b>Consolidated income statement</b>		
(Decrease)/increase in valuation gains on investment properties	(12,768)	15,193
(Decrease)/increase in share of profit from joint venture	(2,962)	7,897
Decrease/(increase) in income tax expenses	3,192	(3,798)
	<u>(12,538)</u>	<u>19,292</u>
<b>Consolidated statement of comprehensive income</b>		
Increase/(decrease) in revaluation reserve of properties under development	12,768	(15,193)
Increase/(decrease) in revaluation reserve in property in joint venture net of tax	2,962	(7,897)
(Decrease)/increase in revaluation reserve for tax effect arising from revaluation of properties under development	(3,192)	3,798
	<u>12,538</u>	<u>(19,292)</u>
<b>Consolidated statement of financial position</b>		
Decrease in reserve	(30,127)	(42,665)
Increase in retained earnings	30,127	42,665
	<u>-</u>	<u>-</u>
(Decrease)/increase in basic earnings per share	(0.26)	0.38
Decrease in dilutive earnings per share	(0.25)	N/A
Increase in EPRA earnings per share	-	-

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**2. Changes in accounting policies (continued)**

**(b) Determination and presentation of operating segments**

IFRS 8 “Operating Segments” requires segment disclosure to be based on the way that the Group’s chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group’s chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years, which was based on a disaggregation of the Group’s financial statements into segments based on related services and geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group’s most senior executive management, and has resulted in additional reportable segments being identified and segment information being presented in accordance with IFRS 8 (Note 4). Corresponding amounts have also been provided on a basis consistent with the revised segment information. Since the adoption of IFRS 8 impacts aspects of presentation and disclosure, there is no impact on earnings per share.

**(c) Presentation of financial statements**

As a result of the adoption of IAS 1 “Presentation of Financial Statements” (2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and consolidated statement of changes in equity has been adopted in this financial statement, and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expenses or net assets for any period presented.

**(d) Disclosure of financial instruments**

As a result of the adoption of the amendments to IFRS 7, the financial statements include expanded disclosures in Note 26(e) about the fair value measurement of the Group’s financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**2. Changes in accounting policies (continued)**

**(e) Accounting for dividends from subsidiaries, associates and jointly controlled entities**

The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether from pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company recognises an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods that have not been restated.

**3. Gross and net rental income**

	<b>Year ended 31 Dec 2009 GBP'000</b>	<b>Year ended 31 Dec 2008 GBP'000</b>
<b>Gross rental income</b>	<b>28,976</b>	<b>26,121</b>
Service charge income on principal basis	5,213	4,888
Service charge expenses on principal basis	(5,008)	(4,293)
Property operating expenses	(1,551)	(1,421)
	<hr/>	<hr/>
<b>Net rental and related income</b>	<b>27,630</b>	<b>25,295</b>
	<hr/>	<hr/>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**4. Segment reporting**

The Group's portfolio consists of high-quality, strategically located properties in the PRC. On first-time adoption of IFRS 8, operating segments, and in conformity with the way information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following two reportable segments:

- 1) **Investment properties:** This segment owns office and retail properties that generate recurring rental income and are able to gain capital appreciation in the long term. Currently, the Group's investment property portfolio is located entirely in Shanghai.
- 2) **Properties under development:** This segment includes mixed-use office and retail facilities, which upon completion will strengthen the current stabilised portfolio with future rental income as well as capital appreciation. Currently, the Group's properties under development are located in Shanghai and Beijing.

**(a) Segment results, assets and liabilities**

<b>GBP '000</b>	<b>Investment properties</b>		<b>Properties under development</b>		<b>Total</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net rental and related income from external customers	27,630	25,295	-	-	27,630	25,295
Valuation gain/(loss)	16,904	23,650	(12,060)	14,484	4,844	38,134
Interest income	172	188	7	38	179	226
Interest expenses	(15,218)	(11,957)	-	-	(15,218)	(11,957)
Depreciation and amortisation	(94)	(89)	-	-	(94)	(89)
<b>Reportable segment profit</b>	<b>23,411</b>	<b>37,458</b>	<b>(19,425)</b>	<b>14,397</b>	<b>3,986</b>	<b>51,855</b>
Reportable segment assets	755,005	816,850	128,773	154,115	883,778	970,965
Reportable segment liabilities	324,056	357,653	16,182	29,182	340,238	386,835
Capital expenditure	1,443	1,508	1,390	2,155	2,833	3,663

The Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all tangible, intangible and current assets. Segment liabilities include trade and other payables, tax payables, loans and borrowings and deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by segments and the expenses incurred by those segments. Segment profit is profit before tax of those segments.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**4. Segment reporting (continued)**

**(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities**

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>GBP'000</b>	<b>GBP'000</b>
<b>Revenue</b>		
Reportable segment net revenue	27,630	25,295
Consolidation net revenue	<u>27,630</u>	<u>25,295</u>
<b>Profit</b>		
Reportable segment profit	3,986	51,855
Share of (loss)/profit of joint ventures	(4,191)	6,875
Performance and management fees	(7,800)	(52,094)
Exchange gains/(losses)	25,067	(55,432)
Elimination of intercompany loan interests	7,260	4,121
Other income	14,904	14
Unallocated head office and corporate expenses	(19,102)	(23,853)
Consolidated profit/(loss) before taxation	<u>20,124</u>	<u>(68,514)</u>
<b>Assets</b>		
Reportable segment assets	883,778	970,965
Elimination of inter-company loans	(4,878)	(2,596)
Other investment	34,250	-
Investment in joint ventures	-	40,482
Financial assets available-for-sale	4,259	14,741
Financial derivatives	293	5,133
Unallocated head office and corporate assets	20,052	44,090
Consolidated total assets	<u>937,754</u>	<u>1,072,815</u>
<b>Liabilities</b>		
Reportable segment liabilities	340,238	386,835
Elimination of inter-company loans	(75,346)	(81,027)
Offshore bank loans	215,117	228,443
Financial derivatives	8,455	15,539
Unallocated head office and corporate liabilities	20,005	37,764
Consolidated total liabilities	<u>508,469</u>	<u>587,554</u>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**5. Administration expenses**

	<b>Year ended 31 Dec 2009 GBP'000</b>	<b>Year ended 31 Dec 2008 GBP'000</b>
Management fees (Note 27)	(9,201)	(8,524)
Performance fees (Note 27)	-	(43,773)
Depreciation of property, plant and equipment	(94)	(89)
Directors' fees (see below)	(140)	(140)
Auditors' remuneration		
- for audit services	(254)	(200)
- for tax advisory services	(12)	(29)
- other services	-	(81)
Share-based payments expenses	(729)	(2,194)
Call option write-off	-	(1,544)
Other administration expenses	(10,547)	(9,650)
	<u>(20,977)</u>	<u>(66,224)</u>

Management fees of GBP9.2 million are incurred for various services provided to the Group by THCL and Treasury Holdings (Shanghai) Property Management Company Limited, the nature of which is set out in Note 27.

The fees of the Directors of the Company for the year were as follows:

	<b>Year ended 31 Dec 2009 GBP'000</b>	<b>Year ended 31 Dec 2008 GBP'000</b>
<b>Non-executive</b>		
R Horney	50	50
I Ling	30	30
S Leckie	30	30
R Pirouet	30	30
	<u>140</u>	<u>140</u>

Annual Directors' fees are an aggregate of GBP140,000 per annum.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**6. Other income**

	<b>Year ended 31 Dec 2009 GBP'000</b>	<b>Year ended 31 Dec 2008 GBP'000</b>
Gains arising from cease of control on joint venture	10,653	-
Gains on disposal of financial assets available-for-sale	3,362	-
Dividend income from financial assets available-for-sale	889	-
Others	14	19
	<hr/>	<hr/>
Total other income	<u>14,918</u>	<u>19</u>

Included in the gains arising from cease of control on joint venture is a translation gain of GBP9.2 million (Note 18(b)) arising in previous years. This gain was recorded as part of the translation reserve in previous years. During the year, as the Group ceased to have joint control over the joint venture, this translation gain was reclassified to the consolidated income statement of the Group. The balance of GBP1.5 million is the fair value gain calculated based on the agreed selling price of the 50% equity interest in the joint venture (Note 13).

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**7. Net financing expenses**

	<b>Year ended 31 Dec 2009 GBP'000</b>	<b>Year ended 31 Dec 2008 GBP'000</b>
Interest income	1,447	2,627
Net foreign exchange gains	17,818	-
Gain on sale of foreign currency options realised	-	6,644
Changes in fair value of financial derivatives	8,028	1,572
	<hr/>	<hr/>
Financial income	27,293	10,843
Gross interest expenses	(24,260)	(22,951)
Net foreign exchange losses	-	(49,847)
Changes in fair value of financial derivatives	(5,133)	(10,658)
	<hr/>	<hr/>
Financial expenses	(29,393)	(83,456)
	<hr/>	<hr/>
Net financing expenses	<u>(2,100)</u>	<u>(72,613)</u>

The Group has not capitalised any interest in the year.

Net foreign exchange gains in 2009 mainly arose from interest-bearing loans denominated in USD held by the Group's subsidiaries incorporated in Jersey as a result of the appreciation of the GBP against the USD.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**8. Income tax expense**

*i) Income tax in the consolidated income statement represents:*

	<b>Year ended 31 Dec 2009 GBP'000</b>	<b>Year ended 31 Dec 2008 GBP'000</b>
Current tax		
Provision for PRC enterprise income tax	(19)	(746)
Provision for PRC withholding income tax	(887)	(451)
	<u>(906)</u>	<u>(1,197)</u>
Deferred tax		
Tax losses	(302)	252
Fair value change of financial derivatives	(161)	158
Revaluation of investment properties	197	(12,609)
Fair value change of other investment (Note 14)	(1,148)	-
Foreign exchange differences	58	1,004
Others	(12)	6
	<u>(1,368)</u>	<u>(11,189)</u>
Reversal of land appreciation tax	<u>-</u>	<u>623</u>
Total	<u>(2,274)</u>	<u>(11,763)</u>

In accordance with a change in the Income Tax (Jersey) Law 1961, the income tax rate for companies in Jersey was reduced from 20% to 0% with effect from 3 June 2008. Exempt company status for all new companies was abolished. The Company's 2008 exempt company status remained in place until 31 December 2008. On 1 January 2009 the Company moved to an income tax rate of 0% and accordingly income, other than Jersey source income (excluding bank deposit interest), is taxed at 0%.

With effect from 6 May 2008, a 3% Goods and Services Tax (GST) was introduced under the Goods and Services Tax (Jersey) Law 2007. The Company may apply for an exemption under the Goods and Services Tax (International Service Entities) (Jersey) Regulations 2008 on payment of an annual fee of GBP100. The Company has been granted international service entity status for 2009.

Pursuant to the PRC tax rules and regulations, the Group's PRC subsidiaries are subject to PRC income tax at a rate of 25%.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**8. Income tax expense (continued)**

*ii) Reconciliation between tax expense and accounting profit at applicable tax rate:*

	<b>Year ended 31 Dec 2009 GBP'000</b>	<b>Year ended 31 Dec 2008 GBP'000</b>
Profit/(loss) before taxation	20,124	(68,514)
Less: Land appreciation tax	-	623
	<hr/>	<hr/>
	20,124	(67,891)
	<hr/>	<hr/>
Notional tax on profit /(loss) before tax, calculated at 25% (2008: 25%)	(5,031)	16,973
Non-deductible expenses net of non-taxable income	6,457	(28,851)
Deferred tax assets not recognised for tax losses of current year	(1,271)	(138)
Deferred tax liabilities not recognised in previous years	(1,542)	81
	<hr/>	<hr/>
	(1,387)	(11,935)
	<hr/>	<hr/>
Land appreciation tax	-	623
Withholding income tax	(887)	(451)
	<hr/>	<hr/>
Income tax	(2,274)	(11,763)
	<hr/>	<hr/>

Taxable income of the Group for the year ended 31 December 2009 was mainly generated by Shanghai Huatian Property Development Company Limited, Shanghai Central Land Estate Company Limited and Shanghai Vision Honest Real Estate Development Company Limited, which are subject to PRC income tax at a rate of 25%.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**9. Earnings per share**

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year ended 31 December 2009.

(b) Diluted earnings per share

The diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive share options.

(c) EPRA diluted earnings per share

The EPRA diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding and is adjusted for the effect of all potentially dilutive share options and other performance adjusting factors recommended by the European Public Real Estate Association (EPRA). The EPRA earnings exclude investment properties and properties under development revaluations, movements in the fair value of financial instruments and their related tax consequences.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**9. Earnings per share (continued)**

The detailed calculation of the earnings per share is listed below:

	<b>Year ended 31 Dec 2009 GBP'000</b>	<b>Year ended 31 Dec 2008 GBP'000</b>
Profit/(loss) attributable to ordinary shareholders	17,850	(80,277)
i) Basic earnings per share		
Weighted average number of shares for the year (Basic)	48,899,825	50,915,682
Basic earnings/(loss) per share	GBP0.37	(GBP1.58)
ii) Diluted earnings per share		
Weighted average number of ordinary shares (Basic)	48,899,825	N/A
Effect of share options in issue	646,268	N/A
Weighted average number of ordinary shares (Diluted)	49,546,093	N/A
Diluted earnings per share	GBP0.36	N/A
iii) Diluted EPRA earnings/(loss) per share		
Profit/(loss) attributable to ordinary shareholders (Diluted)	17,850	N/A
Revaluation movement on investment properties and properties under development	(4,844)	N/A
Revaluation of properties held in joint ventures, net of tax	2,962	N/A
Movement in fair value of financial instruments	(2,895)	N/A
Deferred tax	(36)	N/A
	13,037	N/A
Weighted average number of ordinary shares (Diluted)	49,546,093	N/A
Diluted EPRA earnings/ (loss) per share	GBP0.26	N/A

Amounts of diluted loss per share and diluted EPRA loss for the year ended 31 December 2008 have not been disclosed because the share options outstanding did not have a dilutive effect on the Group's loss for the year.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**10. Investment properties**

<b>Group</b>	<b>2009</b> <b>GBP'000</b>	<b>2008</b> <b>GBP'000</b>
Balance at 1 January	763,558	497,133
Additions	1,443	1,508
Foreign currency adjustments	(70,610)	241,267
Fair value adjustments	16,904	23,650
	<hr/>	<hr/>
Balance at 31 December	<u>711,295</u>	<u>763,558</u>

**Accounting judgements**

The most significant judgements made in preparing these financial statements relate to the carrying value of properties stated at open market value at the balance sheet date. The Group uses external independent professional valuers in calculating these valuations.

The values of the properties are dependent on a variety of factors applying in the market in which the Group operates including: local economic conditions, legislation, economic growth prospects, interest rates, inflation, customer demand and levels of investment yield. Furthermore, the values of individual properties are determined by their specific usage and locations, the quality of their tenants and the rents paid by them and their potential for alternative usage or development.

The board of Directors mitigates these risks by employing an expert professional management team and by adopting appropriate strategic objectives and by incentivising management to meet these objectives through appropriate performance-based remuneration packages.

At 31 December 2009, the investment properties and properties under development (Note 11) were revalued at fair value. The valuations were undertaken by independent international valuation firm DTZ Debenham Tie Leung Limited (DTZ) and were carried out in compliance with the Royal Institute of Chartered Surveyors Practice Standards. The rental yields applied in the valuations for office and retail properties in the PRC were estimated to be in the range of 6.00%-6.25% p.a.

Revaluation gains of GBP16.9 million (2008: GBP23.7 million) have been taken to the consolidated income statement for the year. All the investment properties are held by the Group's subsidiaries incorporated in the PRC. The foreign currency adjustments arose as a result of the appreciation of the GBP against the RMB.

All the investment properties are rented out under operating leases.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**10. Investment properties (continued)**

As at 31 December 2009 investment properties with a total carrying value of GBP711.3 million were pledged as collateral for the Group's borrowings (Note 21).

**11. Properties under development**

	<b>2009</b>	<b>2008</b>
	<b>GBP'000</b>	<b>GBP'000</b>
<b>Group</b>		
Balance at 1 January	149,797	87,280
Additions	1,390	2,156
Foreign currency adjustments	(13,512)	45,877
Fair value adjustments	(12,060)	14,484
	<hr/>	<hr/>
Balance at 31 December	<u>125,615</u>	<u>149,797</u>

At 31 December 2009 the properties under development were revalued at fair value. The valuations were undertaken by the independent international valuation firm DTZ (Note 10).

With the adoption of the amendment to IAS 40 "Investment Property" described in Note 2 (a), the changes in the fair value of the properties under development were taken to the consolidated income statement.

The Group has not capitalised any interest in the year.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**12. Investment in subsidiaries - Company**

	<b>2009</b>	<b>2008</b>
	<b>GBP'000</b>	<b>GBP'000</b>
Balance at 1 January	229,215	216,709
(Reductions)/additions in the year	(14,445)	12,506
	<hr/>	<hr/>
Balance at 31 December	<u>214,770</u>	<u>229,215</u>

All of the Company's subsidiaries are wholly owned. A list of subsidiaries is set out in Note 28. The principal subsidiaries in the PRC which hold properties are as follows:

		<b>Ownership</b>	<b>Ownership</b>
		<b>2009</b>	<b>2008</b>
Shanghai Vision Honest Real Estate Development Company Limited	People's Republic of China	100	100
Shanghai Central Land Estate Company Limited	People's Republic of China	100	100
Shanghai Huatian Property Development Company Limited	People's Republic of China	100	100
Beijing Dream Land Industrial Development Company Limited	People's Republic of China	100	100

The principal subsidiaries that have entered into borrowing facilities on behalf of the Company and/or its property holding subsidiaries are:

		<b>Ownership</b>	<b>Ownership</b>
		<b>2009</b>	<b>2008</b>
Shanghai Vision Honest Real Estate Development Company Limited	People's Republic of China	100	100
Shanghai Central Land Estate Company Limited	People's Republic of China	100	100
Shanghai Huatian Property Development Company Limited	People's Republic of China	100	100
CREO (Shanghai Central Plaza) Limited	Jersey	100	100
CREO (Shanghai City Centre) Limited	Jersey	100	100
Grand Eastern Limited	British Virgin Islands	100	100

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**13. Investment in joint venture /Other investment**

**(a) Investment in joint venture**

	<b>2009</b>	<b>2008</b>
	<b>GBP'000</b>	<b>GBP'000</b>
Balance at 1 January	40,482	21,504
Share of (loss)/ profit of joint venture	(4,191)	6,875
Share of translation reserve	(3,535)	12,103
Derecognition	(32,756)	-
	<hr/>	<hr/>
Balance at 31 December	-	40,482
	<hr/>	<hr/>

**(b) Other investment**

	<b>2009</b>	<b>2008</b>
	<b>GBP'000</b>	<b>GBP'000</b>
Other investment	34,250	-
	<hr/>	<hr/>

As at 31 December 2008, the Group had 50% of the equity interest in a joint venture, Qingdao Shangshi CREO Real Estate Co., Ltd (CREO Qingdao), which was established in Qingdao, Shandong Province, on 25 April 2007.

CREO Qingdao is jointly owned by CREO (Pudong) Limited (CREO Pudong), a wholly-owned subsidiary of the Company, SIIC Shanghai (Holdings) Co., Ltd. (SIIC), a state-owned enterprise and SIIC's subsidiary Shanghai Shangshi City Development & Investment Co., Ltd. (Shanghai Shangshi). CREO Pudong holds a 50% stake while SIIC and Shanghai Shangshi own 45% and 5% respectively.

In 2009, the Group reached an agreement with Shanghai Shangshi to sell its 50% equity interest in CREO Qingdao at a price of RMB376.0 million (GBP34.3 million). The parties agreed that any risks and rewards arising from CREO Qingdao after 30 November 2009 to the date of the change of shareholder will be the full responsibility of Shanghai Shangshi. Furthermore, on 31 December 2009, those Directors of CREO Qingdao, who were appointed by CREO Pudong, resigned from the board of Directors of CREO Qingdao. As at 31 December 2009, the transaction remained subject to approval from the relevant government bodies' approval.

The Directors of the Company are of the view that as of 31 December 2009, the Group ceased to have joint control on CREO Qingdao, and therefore derecognised its investment of GBP32.8 million in the joint venture and recognised its investment in CREO Qingdao as other investment at its fair value of GBP34.3 million. There is a fair value gain of GBP1.5 million (Note 6).

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**14. Deferred tax assets and liabilities**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following items:

<b>Group</b>	<b>Assets 2009 GBP'000</b>	<b>Liabilities 2009 GBP'000</b>
Fair value change in investment properties and properties under development	-	(138,683)
Fair value change in financial derivatives	232	-
Equity investment	-	(1,148)
Others	129	-
	<hr/>	<hr/>
Deferred tax assets/(liabilities)	361	(139,831)

The PRC income tax at a rate of 25% would be charged if the Group decided to realise its investment properties and properties under development at the year-end valuations through the sale of the underlying assets after the year end.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**14. Deferred tax assets and liabilities (continued)**

**Deferred tax liabilities**

	<b>2009</b>	<b>2008</b>
	<b>GBP'000</b>	<b>GBP'000</b>
Balance at 1 January	153,158	92,835
Recognition of deferred tax liabilities	737	12,786
Foreign currency adjustments	(14,064)	47,537
	<hr/>	<hr/>
Balance at 31 December	139,831	153,158
	<hr/>	<hr/>

**Deferred tax assets**

	<b>2009</b>	<b>2008</b>
	<b>GBP'000</b>	<b>GBP'000</b>
Balance at 1 January	1,136	254
Recognition of deferred tax assets	83	707
Foreign currency adjustments	(86)	290
Reversal for the year	(772)	(115)
	<hr/>	<hr/>
Balance at 31 December	361	1,136
	<hr/>	<hr/>

**Unrecognised deferred tax liability**

Pursuant to the PRC Corporate Income Tax Law, which took effect from 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign enterprise investors. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign enterprise investors.

As at 31 December 2009, except for its investment in CREO Qingdao, no deferred withholding tax in respect of the Group's investment in the PRC was accrued for, because in the opinion of the Directors of the Company, the Group does not expect to pay dividends out of the recognised but undistributed profits of the Group's PRC subsidiaries for the year 2009 within the next 12 months.

Upon the Group ceased to have joint control over CREO Qingdao, a deferred withholding tax liability of GBP1.15 million was accrued for at 10% of the difference between the fair value of the other investment and the Group's investment cost in CREO Qingdao.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**14. Deferred tax assets and liabilities (continued)**

**Unrecognised deferred tax assets**

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

	<b>2009</b>	<b>2008</b>
	<b>GBP'000</b>	<b>GBP'000</b>
Tax losses	1,240	217

Deferred tax assets have not been recognised in respect of this item because it is not probable that future taxable profits will be available against which the Group could utilise the benefits in the future. These tax losses mainly arose from the operating losses of the Company's subsidiaries in the PRC in prior and current years and will expire in 2013 and 2014.

**15. Financial assets available-for-sale**

	<b>2009</b>		<b>2008</b>	
	<b>Group</b>	<b>Company</b>	Group	Company
	<b>GBP'000</b>	<b>GBP'000</b>	GBP'000	GBP'000
LuxChina Property Development Company Limited	7,373	-	14,117	5,998
Investment in RREEF China Commercial Trust	4,259	4,259	7,803	7,803
Investment in SJM Investments	-	-	940	940
	<b>11,632</b>	<b>4,259</b>	<b>22,860</b>	<b>14,741</b>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**15. Financial assets available-for-sale (continued)**

**LuxChina Property Development Company Limited**

At 31 December 2009 the Group holds a 5% equity interest in LuxChina Property Development Company Limited, a property investment company located in the PRC. This balance decreased because the Group disposed of 4.75% of its equity interest in 2009.

**RREEF China Commercial Trust**

In November 2008 the Company acquired 33.5 million units (7.21%) in RREEF China Commercial Trust (RREEF CCT), a Hong Kong-listed Real Estate Investment Trust (REIT), at an average price of HKD2.58 per unit, through on-market purchases.

RREEF CCT was listed on the Main Board of the Stock Exchange of Hong Kong Limited (HKSE) on 22 June 2007 and currently owns an international grade A office and retail complex in the Chaoyang District, Beijing. The property, Beijing Gateway Plaza, is a commercial real estate asset of approximately 130,000 square metres. RREEF CCT is managed by RREEF China REIT Management Limited, which is owned by RREEF Alternative Investments through Deutsche Bank Asia Pacific.

In 2009, the Company disposed of 16.9 million units in RREEF CCT. As at 31 December 2009, the Company held 16.6 million units (3.56%) in RREEF CCT. The investment units were carried at fair value at 31 December 2009, which was assessed as the bid price of the units (HKD3.24) at the 31 December 2009 market close.

**SJM Holdings Limited**

In July 2008 the Company purchased 6.3 million shares at HKD 3.08 each in SJM Holdings Limited (SJM) as part of SJM's initial public offering on the HKSE. SJM is a holding company whose principal asset is the controlling interest in Sociedade de Jogos de Macau SA. The Company disposed of all of the investment in SJM in 2009.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**16. Trade and other receivables**

	<b>2009</b>		<b>2008</b>	
	<b>Group GBP'000</b>	<b>Company GBP'000</b>	<b>Group GBP'000</b>	<b>Company GBP'000</b>
Trade receivables due from third parties	1,110	-	463	-
Trade receivables due from related parties	-	-	42	-
Prepayments	1,136	-	1,784	-
Non-trade receivables	3,366	80	1,832	9
Bank deposit interest receivable	-	-	1	-
Derivative financial instruments	293	-	5,133	5,133
	<b>5,905</b>	<b>80</b>	<b>9,255</b>	<b>5,142</b>

At 31 December 2009, the carrying amount of derivative financial instruments is the fair value of an interest rate cap held by the Group.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

**17. Total cash balances**

	<b>2009</b>		<b>2008</b>	
	<b>Group GBP'000</b>	<b>Company GBP'000</b>	<b>Group GBP'000</b>	<b>Company GBP'000</b>
Bank balances	37,753	6,018	42,820	10,097
Call deposits	-	-	23,820	353
Cash and cash equivalents	37,753	6,018	66,640	10,450
Restricted cash	10,273	-	18,356	-
Total cash	<b>48,026</b>	<b>6,018</b>	<b>84,996</b>	<b>10,450</b>

The cash balance of GBP48 million at 31 December 2009 includes restricted cash of GBP10.3 million. The restricted cash relates to funds deposited in interest reserve accounts to repay borrowings as they fall due.

The RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**18. Capital and Reserves**

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

	<b>Stated capital account GBP'000</b>	<b>Share option reserve GBP'000</b>	<b>Fair value reserve GBP'000</b>	<b>Retained earnings/ (accumulated) losses) GBP'000</b>	<b>Total GBP'000</b>
<b>Balance at 1 January 2008</b>	250,858	5,407	-	(13,031)	243,234
Total comprehensive income for the year	-	-	383	(52,611)	(52,228)
Issue of new shares	3,521	-	-	-	3,521
Purchase of own shares	(7,175)	-	-	-	(7,175)
Equity-settled share-based transactions	-	15,986	-	-	15,986
Share options exercised	812	(722)	-	-	90
<b>Balance at 31 December 2008</b>	<b>248,016</b>	<b>20,671</b>	<b>383</b>	<b>(65,642)</b>	<b>203,428</b>
Total comprehensive income for the year	-	-	210	(10,213)	(10,003)
Issue of new shares	13,792	(13,792)	-	-	-
Purchase of own shares	(922)	-	-	-	(922)
Equity-settled share-based transactions	-	729	-	-	729
Share options exercised	67	(60)	-	-	7
<b>Balance at 31 December 2009</b>	<b>260,953</b>	<b>7,548</b>	<b>593</b>	<b>(75,855)</b>	<b>193,239</b>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**18. Capital and Reserves (continued)**

**(a) Stated capital account**

The authorised share capital of the Company is unlimited. The issued share capital of the Company at 31 December 2009 was 49,536,004 ordinary shares of no par value (number of shares at 31 December 2008: 47,703,038 shares).

**Ordinary share capital in thousands of shares**

Shares as at 1 January 2008- fully paid	50,676
Options exercised	106
Issue of new shares	421
Share buyback	<u>(3,500)</u>
On issue at 31 December 2008 - fully paid	47,703
Options exercised (i)	9
Issue of new shares (ii)	2,264
Share buyback (iii)	<u>(440)</u>
On issue at 31 December 2009 - fully paid	<u>49,536</u>

i) Options exercised

There were 8,800 options exercised in 2009 at an exercise price of GBP0.85.

ii) Issue of new shares

In April 2009, 2,264,166 new ordinary shares of no par value were issued to THCL, being the equity component of the performance fee for the year ended 31 December 2008.

iii) Purchase of own shares

During the year, the Company repurchased its own shares on The Alternative Investment Market of the London Stock Exchange as follows:

Month/year	Number of shares	Price paid per share GBP	Aggregated price paid GBP'000
January 2009	100,000	2.05	205
January 2009	340,000	2.11	<u>717</u>
			<u>922</u>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**18. Capital and Reserves (continued)**

**(b) Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. A substantial part of the translation reserve in 2009 arose as a result of translating the financial statements of the Company's PRC subsidiaries. The functional currency of these subsidiaries is RMB, which depreciated by 10% against the GBP during the year.

	<b>Year ended 31 Dec 2009 GBP'000</b>	<b>Year ended 31 Dec 2008 GBP'000</b>
Change in translation reserve during the year	(54,914)	221,424
Reclassification adjustments for amounts transferred to profit or loss		
- liquidation of subsidiaries	(9,777)	-
- cease of joint control	(9,159)	-
	<hr/>	<hr/>
Net movement in translation reserve during the year recognised in other comprehensive income	<b>(73,850)</b>	<b>221,424</b>

**(c) Share option reserve**

The share option reserve represents the fair value amount in respect of the outstanding options that have been charged through the income statement and the fair value of the performance fee that is required to be settled in equity to the investment manager in accordance with the investment advisory agreement. There were 8,800 options exercised during the year at an exercise price of GBP0.85.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**18. Capital and Reserves (continued)**

**(d) PRC statutory reserve**

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of Directors. These PRC entities are required to transfer at least 10% of their profit after taxation, as determined under accounting principles generally accepted in the PRC to the reserve fund until the balance of such reserve fund is equal to 50% of the registered capital. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distribution of dividends to the equity holders.

**(e) Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets.

	<b>Year ended 31 Dec 2009 GBP'000</b>	<b>Year ended 31 Dec 2008 GBP'000</b>
Change in fair value recognised during the year	636	383
Reclassification adjustments for amounts transferred to profit or loss	(426)	-
- gain on disposal		
Net movement in fair value reserve during the year recognised in other comprehensive income	<b>210</b>	<b>383</b>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**18. Capital and Reserves (continued)**

**(f) Dividends**

Dividends have not been provided for and there are no income tax consequences.

**(g) Tax effects relating to each component of other comprehensive income**

There is no income tax effect relating to each component of other comprehensive income for 2009.

**(h) Capital management**

The Group's objectives when managing capital are:

- (i) to safeguard the entity's ability to continue as a going concern
- (ii) to grow the assets of the Group and create value for investors
- (iii) to maintain significant financial resources to mitigate against financial risk and ensure any liquidity risk is minimised.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and adjusted it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Group's capital that it manages is made up of stated capital and reserves as set out in the consolidated statement of changes in equity along with the movements in the period. There are no externally imposed capital requirements for the Group. The liquidity risk to the Group is set out in Note 26(b).

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**19. Share options**

There were no share options granted in 2009 pursuant to the terms of the Share Option Scheme.

In 2009, 8,800 options at an exercise price of GBP0.85 were exercised, while 27,000 options at GBP7.56 and 65,000 options at GBP6.35 lapsed.

The fair values of the options were calculated using the binomial option pricing model. The inputs into the model were as follows:

<b>Tranche</b>	<b>One</b>	<b>Two</b>	<b>Three</b>	<b>Four</b>
Options granted by strike price	GBP0.85	GBP7.56	GBP8.065	GBP6.35
Number of Options	1,100,000	1,002,000	30,000	500,000
Expected volatility	22.02%	22.21%	21.87%	53.89%
Expected life	4.5	4.5	4.5	6
Risk free rate	5.16%	5.50%	4.33%	4.47%
Earliest exercise date	01.02.2008	11.07.2009	25.01.2010	10.09.2013
Expiry date	31.01.2013	10.07.2014	24.01.2015	09.09.2015

The share option reserve represents the Directors' best estimate of the fair value of the share options conditionally granted at 31 December 2009.

The total share options outstanding at 31 December 2009 are summarised as follows:

<b>Tranche</b>	<b>One</b>	<b>Two</b>	<b>Three</b>	<b>Four</b>
Outstanding at 31 December 2008	783,800	864,000	30,000	500,000
Expired during 2009	-	(27,000)	-	(65,000)
Exercised during 2009	(8,800)	-	-	-
Outstanding at 31 December 2009	775,000	837,000	30,000	435,000
Exercisable balance at 31 December 2009	775,000	837,000	-	-

During 2009 the Company recognised compensation expenses of GBP0.73 million relating to the equity settled share-based awards. The fair value of share-based payment awards is expensed over the requisite service period, together with a corresponding increase in equity.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**19. Share options (continued)**

The estimated grant date fair value of the four tranches of options granted was as follows:

	<b>Number of Options Granted</b>	<b>Estimated Grant Date Fair Value GBP'000</b>	<b>Expensed in 2009 GBP'000</b>
Options granted 25 April 2007	1,100,000	7,480	-
Options granted 11 July 2007	1,002,000	2,164	408
Options granted 24 January 2008	30,000	63	29
Options granted 10 September 2008	500,000	1,765	292
	<hr/> 2,632,000	<hr/> 11,472	<hr/> 729

The options outstanding at 31 December 2009 have a weighted average maximum contractual life of 4.22 years.

The weighted average share price at the date of exercise for share options exercised in 2009 was GBP2.04 (2008: GBP7.67).

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**20. Net asset value per share**

The net asset value (NAV) per share as at 31 December 2009 was as follows:

<b>Group</b>	<b>2009</b> <b>GBP'000</b>	<b>2008</b> <b>GBP'000</b>
Net assets attributable to shareholders	429,285	485,261
Proceeds from exercise of share options	9,991	10,615
	<hr/>	<hr/>
Adjusted net assets	439,276	495,876
<b>i) Basic net asset value per share</b>		
Number of ordinary shares in issue	49,536,004	47,703,038
Basic net asset value per share	GBP8.67	GBP10.17
<b>ii) Diluted net asset value per share</b>		
Number of ordinary shares in issue	49,536,004	47,703,038
Effect of share options in issue	2,077,000	2,177,800
	<hr/>	<hr/>
Number of ordinary shares in issue (diluted)	51,613,004	49,880,838
Diluted net asset value per share	GBP8.51	GBP9.94
<b>iii) Diluted EPRA net asset value per share</b>		
Adjusted diluted net assets		
per above (diluted)	439,276	495,876
Fair value of financial instruments	9,091	12,120
Deferred tax	138,451	152,501
	<hr/>	<hr/>
Diluted EPRA net assets	586,818	660,497
Number of ordinary shares in issue (diluted)	51,613,004	49,880,838
Diluted EPRA Net asset value per share	GBP11.37	GBP13.24

The dilutive effect for December 2009 above assumes 775,000 options at a strike price of GBP0.85, 837,000 options at a strike price of GBP7.56, 30,000 options at a strike price of GBP8.065 and 435,000 options at a strike price of GBP6.35 are exercised.

The diluted EPRA NAV per share excludes the mark-to-market of financial instruments which are economically effective hedges and deferred taxation on revaluations on investment properties and properties under development and financial instruments, and is calculated on a fully diluted basis.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**20. Net asset value per share (continued)**

<b>Company</b>	<b>2009</b> <b>GBP'000</b>	<b>2008</b> <b>GBP'000</b>
Net assets attributable to shareholders	193,239	203,428
Proceeds from exercise of share options	N/A	N/A
Adjusted net assets	N/A	N/A
<b>Number of shares in issue:</b>	<b>2009</b>	<b>2008</b>
Ordinary shares - basic	49,536,004	47,703,038
Ordinary shares - diluted	N/A	N/A
<b>Net asset value per ordinary share</b>		
- basic	GBP3.90	GBP4.26
- diluted	N/A	N/A

Diluted net asset value per ordinary share for the year ended 31 December 2009 has not been disclosed, as the share options outstanding during the year do not have a dilutive effect on the net asset of the Company for the year.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**21. Interest-bearing loans and borrowings**

The carrying amount of Group loans is set out below. For more information about the Group's exposure to interest rate and currency risk, see Note 26.

	<b>2009</b>	<b>2008</b>
	<b>GBP'000</b>	<b>GBP'000</b>
Bank borrowings - secured (Note 26(b))	316,437	345,356
Less: loan issue costs	(612)	(1,276)
	<u>315,825</u>	<u>344,080</u>
<b>Long-term loans</b>		
<u>Principal</u>		
Balance at 1 January	345,356	248,574
Reclassification to current portion	(272,096)	-
Additions	27,536	-
Foreign currency adjustments	(6,312)	96,782
Balance at 31 December	<u>94,484</u>	<u>345,356</u>
<u>Issue costs</u>		
Balance at 1 January	1,276	1,939
Reclassification to current portion	(923)	-
Amortisation	(137)	(663)
Balance at 31 December	<u>216</u>	<u>1,276</u>
Net Balance	<u>94,268</u>	<u>344,080</u>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**21. Interest-bearing loans and borrowings (continued)**

	<b>2009</b>	<b>2008</b>
	<b>GBP'000</b>	<b>GBP'000</b>
<b>Long-term loans within one year</b>		
<u>Principal</u>		
Balance at 1 January	-	-
Reclassification from long-term loan	272,096	-
Additions	135	-
Repayments	(25,719)	-
Foreign currency adjustments	(24,559)	-
	<hr/>	<hr/>
Balance at 31 December	221,953	-
	<hr/>	<hr/>
<u>Issue costs</u>		
Balance at 1 January	-	-
Additions	-	-
Reclassification from long-term loan	923	-
Amortisation	(527)	-
	<hr/>	<hr/>
Balance at 31 December	396	-
	<hr/>	<hr/>
Net Balance	221,557	-
	<hr/>	<hr/>

The secured bank loans borrowed within the PRC as at 31 December 2009 were secured by the Group's investment properties with a total carrying amount of GBP711.3 million. The secured bank loans borrowed outside of the PRC as at 31 December 2009 were secured by the equity interests of certain subsidiaries of the Company.

In 2009, the Group repaid its borrowings of EUR18.8 million and RMB97 million. At the same time, the Group borrowed multi-currency three-year loans equivalent to GBP27.7 million (USD37.8 million plus RMB50 million).

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**22. Trade and other payables**

	2009		2008	
	Group GBP'000	Company GBP'000	Group GBP'000	Company GBP'000
Payables due to related parties	16,446	16,446	34,846	34,846
Trade payables	1,365	-	1,839	15
Advance from customers	709	-	480	-
Other taxes payable	4,663	-	5,426	-
Non-trade payables	16,289	-	19,194	304
Accrued expenses	3,957	856	5,939	1,136
Derivative financial instruments	9,384	-	17,253	-
Payable on share buybacks	-	-	5,125	5,125
Due to subsidiary	-	14,586	-	14,694
	<u>52,813</u>	<u>31,888</u>	<u>90,102</u>	<u>56,120</u>

Payables due to related parties at the year end totalled GBP16.4 million, including cash components of 2008's performance fees of GBP12.6 million and 2009's management fees of GBP3.8 million due to THCL and accounting services fees of GBP50,000 due to Treasury Holdings (Note 27).

Trade payables are interest free and are due within one year. The Directors consider that the carrying amount of trade and other payables approximate their fair value.

Derivative financial instrument relates to the fair value of floating to fixed rate swaps on onshore and offshore floating rate debts. The fair value represents the net present value of the difference between the cash flows at the contracted rates and the interest rates prevailing at the reporting date as at 31 December 2009.

**23. Operating leases - Leases as lessor**

The Group leases out its investment properties under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	2009		2008	
	Group GBP'000	Company GBP'000	Group GBP'000	Company GBP'000
Less than one year	20,585	-	24,518	-
Between one and five years	29,336	-	15,750	-
More than five years	1,614	-	641	-
	<u>51,535</u>	<u>-</u>	<u>40,909</u>	<u>-</u>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**24. Capital commitments**

Construction and refurbishment

In 2009, the Group entered into contracts to develop or refurbish the properties under development and the investment properties respectively. At 31 December 2009, the commitment under those contracts amounted to GBP3.4 million (2008: GBP3.0 million).

**25. Contingent liabilities**

On 3 August 2009, a main contractor filed an arbitration case to China International Economic & Trade Arbitration Committee in Beijing against Beijing Dreamland Industrial Development Co., Ltd (Beijing Dreamland), one of the Company's subsidiaries, alleging that Beijing Dreamland materially breached and illegally terminated the main construction contract signed by both parties in August 2008 and on that basis, asking for a payment of GBP1.4 million as its fee for construction already undertaken and a compensation of its loss of profits. The Directors of the Company is of the view that it is not probable that such allegation will result in an outflow of resources of the Group in the future and therefore do not consider it necessary to make any provision in this respect.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**26. Financial Instruments**

**(a) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer, or counterparty to a financial instrument, fails to meet its contractual obligations. The majority of the Group's financial assets consist primarily of its cash and cash equivalents and trade and other receivables.

**Cash and cash equivalents**

The Group limits its exposure to credit risk on its investments by only investing surplus funds with approved financial institutions with credit ratings of "A" or equivalent. The treasury management policy of the Group is to hold no more than 10% of cash on deposit with any one bank not covered by a National Government bank guarantee scheme.

**Trade and other receivables**

Trade receivables relate mainly to the Group's tenants. The Group's exposure to credit risk is influenced by the individual characteristics of each tenant. Customers are grouped according to their trade/business e.g. retail, office, mixed use, residential. Receivables are reviewed monthly. There are no significant concentrations of credit risk with a single customer as the Group has a large number of quality tenants who pay their rentals in advance and some properties are rented subject to deposits, so that in the event of non-payment the Group has recourse to this deposit.

Included in other receivables are derivative financial instruments of GBP0.3 million (2008: GBP5.1million). The credit exposure from these derivative financial instruments is combined with cash and cash equivalents in determining gross credit exposure to a single counterparty.

**Notes to the consolidated financial statements  
For the year ended 31 December 2009 (continued)**

**26. Financial Instruments (continued)**

**(a) Credit risk (continued)**

The maximum exposure to credit risk at 31 December 2009 was:

	<b>2009</b>	2008
	<b>GBP'000</b>	GBP'000
Cash and cash equivalents	37,753	66,640
Restricted cash	10,273	18,356
Short term receivables	<u>4,476</u>	<u>2,338</u>
Total financial assets	<u>52,502</u>	<u>87,334</u>

**Impairment losses**

No impairment losses were recognised in the year ended 31 December 2009.

**Guarantees**

At 31 December 2009 no guarantees were outstanding.

**(b) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach is to ensure as far as possible that it will always have sufficient liquidity (cash and liquid resources) to meet its liabilities. As at 31 December 2009, the Group maintained cash balances of approximately GBP48.0 million, including restricted cash balance of GBP10.3 million, at the year end which were mainly held on current deposits and which earned interest at the prevailing variable market rates.

As at 31 December 2009, the Group has a bank loan balance of GBP equivalents 222.0 million, which will fall due in October 2010. To manage the liquidity risk, the Directors of the Company is currently in negotiation with several commercial banks to refinance the above loans to the best benefits of the Group.

**Maturity profile of liabilities**

	<b>2009</b>	2008
	<b>GBP'000</b>	GBP'000
In one year or less, or on demand	277,950	92,326
In more than one		
but not more than two years	70,590	290,706
In more than two		
but not more than five years	29,302	75,314
In more than five years	-	-
	<u>377,842</u>	<u>458,346</u>
	<u><u>377,842</u></u>	<u><u>458,346</u></u>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**26. Financial Instruments (continued)**

**(b) Liquidity risk (continued)**

**At 31 December 2009**

<b>Non-derivative financial liabilities</b>	<b>Carrying amount GBP'000</b>	<b>Contractual cash flows GBP'000</b>	<b>2010 GBP'000</b>	<b>2011 GBP'000</b>	<b>2012 GBP'000</b>	<b>2013 GBP'000</b>	<b>2014 GBP'000</b>	<b>&gt;5 Years GBP'000</b>
USD loans with variable interest	237,188	245,197	152,160	68,128	24,909	-	-	-
RMB loans with variable interest	79,249	84,074	79,132	549	4,393	-	-	-
Trade and other payable	<u>38,057</u>	<u>38,057</u>	<u>38,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>354,494</u>	<u>367,328</u>	<u>269,349</u>	<u>68,677</u>	<u>29,302</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Derivative financial liabilities</b>								
Interest rate swaps	<u>9,384</u>	<u>10,514</u>	<u>8,601</u>	<u>1,913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>363,878</u>	<u>377,842</u>	<u>277,950</u>	<u>70,590</u>	<u>29,302</u>	<u>-</u>	<u>-</u>	<u>-</u>

**At 31 December 2008**

<b>Non-derivative financial liabilities</b>	<b>Carrying amount</b> GBP'000	Contractual cash flows GBP'000	<b>2009</b> GBP'000	<b>2010</b> GBP'000	<b>2011</b> GBP'000	<b>2012</b> GBP'000	<b>2013</b> GBP'000	<b>&gt;5 Years</b> GBP'000
RMB loans fixed at 7.5%	9,730	10,643	730	9,913	-	-	-	-
USD loans with variable interest	235,465	251,364	8,471	168,762	74,131	-	-	-
EUR loans fixed at 6.6%	17,906	19,388	1,185	18,203	-	-	-	-
RMB loan with variable interest	82,255	92,560	5,889	86,671	-	-	-	-
Trade and other payable	<u>67,423</u>	<u>67,423</u>	<u>67,423</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>412,779</u>	<u>441,378</u>	<u>83,698</u>	<u>283,549</u>	<u>74,131</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Derivative financial liabilities</b>								
Interest rate swaps	<u>17,253</u>	<u>16,968</u>	<u>8,628</u>	<u>7,157</u>	<u>1,183</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>430,032</u>	<u>458,346</u>	<u>92,326</u>	<u>290,706</u>	<u>75,314</u>	<u>-</u>	<u>-</u>	<u>-</u>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**26. Financial Instruments (continued)**

**(c) Currency risk**

Currency translation exposure results when the Group translates a foreign currency subsidiary's financial data to its functional currency for consolidated financial reporting.

The Group has five significant overseas subsidiary and joint venture undertakings in the PRC and four holding companies in Hong Kong. The assets, liabilities, revenues and expenses of the PRC subsidiaries are denominated in RMB and the Hong Kong subsidiaries in HKD. The investments in the PRC subsidiaries are financed, predominantly in USD and EUR as the RMB is a controlled currency. The Group's balance sheet can be significantly affected by movements in the RMB/USD and RMB/EUR exchange rates on the net assets of the PRC subsidiaries.

The RMB is not an openly traded currency so much of the Group's cash exposure is to the USD. The Group has therefore entered into a USD call/ RMB put warrant to hedge against a potential weakening of the USD against the RMB.

The Group is also exposed to movements in the RMB denominated foreign currency subsidiary balances against the GBP, which is the presentation currency adopted by the Group. A weakening of the GBP against the RMB would have a positive effect on balance sheet positions in GBP terms as experienced in 2008, with the RMB balances translated at closing exchange rates. Conversely, a strengthening GBP against the RMB would have a negative impact on balance sheet positions.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

<b><u>GBP '000</u></b>	RMB	USD	HKD	EUR
<b>31 December 2009</b>				
Cash and				
cash equivalents	-	11,363	3,250	1,777
Restricted cash	-	7,060	-	-
Trade and				
other receivables	-	45,943	199,399	14,658
Foreign currency				
derivatives	-	-	-	-
Financial assets				
available-for-sale	-	-	4,259	-
Other investment	34,250	-	-	-
Interest-bearing loans				
and borrowings	-	(213,676)	-	-
Trade and				
other payables	-	(31,286)	(31,255)	(14,658)
Net exposure	<u>34,250</u>	<u>(180,596)</u>	<u>175,653</u>	<u>1,777</u>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**26. Financial Instruments (continued)**

**(c) Currency risk (continued)**

<b><u>GBP '000</u></b>	<b>RMB</b>	<b>USD</b>	<b>HKD</b>	<b>EUR</b>
<b>31 December 2008</b>				
Cash and cash equivalents	-	28,305	3,387	8,456
Restricted cash	-	11,903	-	800
Trade and other receivables	-	39,039	210,189	14,947
Foreign currency derivative	5,133	5,133	-	-
Financial assets available-for-sale	-	-	8,744	-
Interest-bearing loans and borrowings	-	(235,156)	-	(17,906)
Trade and other payables	-	(43,785)	(37,892)	(14,694)
Net exposure	5,133	(194,561)	184,428	(8,397)

The following significant exchange rates against the GBP applied during the year:

	<b>Average rate</b>		<b>Reporting date mid spot rate</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
RMB	10.72	12.84	10.98	9.97
HKD	12.16	14.38	12.47	11.32
USD	1.57	1.85	1.61	1.46
EUR	1.13	1.26	1.12	1.05

**Sensitivity analysis**

The following table indicates the instantaneous increase/ (decrease) in the Group's loss after tax (and accumulated losses) and other components of consolidated equity that would have arisen if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**26. Financial Instruments (continued)**

**(c) Currency risk (continued)**

Group	2009				2008	
	Increase/ (decrease) in exchange rate	Effect on profit after tax and accumulated losses Debit/(credit) GBP '000	Effect on other components of equity Debit/(credit) GBP '000	Increase/ (decrease) in exchange rate	Effect on loss after tax and accumulated losses Debit/(credit) GBP '000	Effect on other components of equity Debit/(credit) GBP '000
GBP	10%	(14,101)	15,771	10%	(18,937)	20,330
	(10%)	14,101	(15,771)	(10%)	18,937	(20,330)
RMB	10%	(4,549)	(4,691)	10%	1,288	(6,078)
	(10%)	4,549	4,691	(10%)	(1,288)	6,078
USD	10%	19,151	684	10%	15,231	827
	(10%)	(19,151)	(684)	(10%)	(15,231)	(827)
HKD	10%	(323)	(11,765)	10%	241	(15,053)
	(10%)	323	11,765	(10%)	(241)	15,053
EUR	10%	(178)	-	10%	840	-
	(10%)	178	-	(10%)	(840)	-

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss/profit after tax and equity measured in the respective functional currencies, translated into GBP at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency.

**(d) Interest risk**

The Group finances its operations through a mixture of retained earnings, interest bearing loans and borrowings and stated capital. The Group borrows in the desired currencies at both fixed and floating rates and uses interest rate instruments to generate the desired interest rate profile and to manage the Group's exposure to interest rate fluctuations. At the year end 68% of the Group's financial liabilities were at effective fixed rates as a result of certain interest rate

swap arrangements and the remainder were at floating rates of interest. The Group's cash balances are primarily at floating rates based on the appropriate Euro Interbank Offered rates (EURIBOR) or London Interbank Offered rates (LIBOR).

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**26. Financial Instruments (continued)**

**(d) Interest risk (continued)**

**Interest rate profile as at 31 December 2009**

	<b>Floating rate GBP'000</b>	<b>Fixed rate GBP'000</b>	<b>Non-interest bearing GBP'000</b>	<b>Total GBP'000</b>
<i>Assets</i>				
Cash and cash equivalents	37,753	-	-	37,753
Restricted cash	10,273	-	-	10,273
Short term receivables	-	-	4,476	4,476
	<u>48,026</u>	<u>-</u>	<u>4,476</u>	<u>52,502</u>
<hr/>				
<i>Liabilities</i>				
RMB loans with variable interest	(79,249)	-	-	(79,249)
USD loans with variable interest	(23,512)	-	-	(23,512)
USD loans effectively fixed at between 5.9% to 7.6%	-	(213,676)	-	(213,676)
Trade and other payables	-	-	(38,057)	(38,057)
	<u>(102,761)</u>	<u>(213,676)</u>	<u>(38,057)</u>	<u>(354,494)</u>
<hr/>				
Net liabilities	<u>(54,735)</u>	<u>(213,676)</u>	<u>(33,581)</u>	<u>(301,992)</u>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**26. Financial Instruments (continued)**

**(d) Interest risk (continued)**

**Interest rate profile as at 31 December 2008**

	<b>Floating rate GBP'000</b>	<b>Fixed rate GBP'000</b>	<b>Non-interest Bearing GBP'000</b>	<b>Total GBP'000</b>
<i>Assets</i>				
Cash and cash equivalents	66,640	-	-	66,640
Restricted cash	18,356	-	-	18,356
Short term receivables	-	-	2,338	2,338
	<u>84,996</u>	<u>-</u>	<u>2,338</u>	<u>87,334</u>
<i>Liabilities</i>				
RMB loans with variable interest	(82,255)	-	-	(82,255)
RMB loans fixed at 7.5%	-	(9,730)	-	(9,730)
USD loans effectively fixed at between 5.9% to 7.6%	-	(235,465)	-	(235,465)
EUR loans fixed at 6.6%	-	(17,906)	-	(17,906)
Trade and other payables	-	-	(67,423)	(67,423)
	<u>(82,255)</u>	<u>(263,101)</u>	<u>(67,423)</u>	<u>(412,779)</u>
Net assets/(liabilities)	<u>2,741</u>	<u>(263,101)</u>	<u>(65,085)</u>	<u>(325,445)</u>

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**26. Financial Instruments (continued)**

**(e) Fair value**

**Fair values versus carrying amounts**

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities:

	<i>2009</i>		<i>2008</i>	
	<i>Carrying amount</i>	<i>Fair Value</i>	<i>Carrying amount</i>	<i>Fair Value</i>
<b>GBP '000</b>				
<b>Assets carried at fair value</b>				
Financial assets available-for-sale	11,632	11,632	22,860	22,860
Other investment	34,250	34,250	-	-
Derivative financial assets	293	293	5,133	5,133
<b>Assets carried at amortised cost</b>				
Short term receivables	4,476	4,476	2,338	2,338
Restricted cash	10,273	10,273	18,356	18,356
Cash and cash equivalents	37,753	37,753	66,640	66,640
<b>Liabilities carried at fair value</b>				
Derivative financial liabilities	(9,384)	(9,384)	(17,253)	(17,253)
<b>Liabilities carried at amortised cost</b>				
Variable rate debts fixed with interest rate swaps	(213,676)	(213,676)	(235,465)	(235,465)
Variable rate debts	(102,761)	(102,761)	(82,255)	(82,255)
Fixed rate debts	-	-	(27,636)	(28,040)
Trade and other payables	(38,057)	(38,057)	(67,423)	(67,423)
	<u>(265,201)</u>	<u>(265,201)</u>	<u>(314,705)</u>	<u>(315,109)</u>

Cash and liquid resources and other financial assets have fair values that approximate to their carrying amounts because of their short-term nature. The fair values of bank and other loans are based on the net present value of the anticipated future cash flows associated with these instruments. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**26. Financial Instruments (continued)**

**(e) Fair value (continued)**

**Fair values versus carrying amounts (continued)**

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(i) Cash and cash equivalents, trade and other receivables and trade and other payables. The carrying values approximate to their fair values because of the short maturities of these instruments.

(ii) Interest-bearing loans

The carrying amount of bank loans approximate to their fair value based on the borrowing rate currently available for bank loans with similar terms and maturity.

(iii) Financial derivatives

The Group selects appropriate valuation methods and makes assumptions with reference to market conditions existing at each balance sheet date to determine the fair value of those financial derivatives.

**Fair value hierarchy**

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**26. Financial Instruments (continued)**

**(e) Fair value (continued)**

**Fair value hierarchy (continued)**

GBP'000	Level 1	Level 2	Level 3	Total
<b>31 December 2009</b>				
Available-for-sale financial assets	4,259	-	7,373	11,632
Other investment	-	-	34,250	34,250
Derivative financial assets	-	293	-	293
	<u>4,259</u>	<u>293</u>	<u>41,623</u>	<u>46,175</u>
Derivative financial liabilities	-	(9,384)	-	(9,384)
	<u>4,259</u>	<u>(9,091)</u>	<u>41,623</u>	<u>36,791</u>

During the year there were no significant transfers between instruments in Level 1 and Level 2.

**27. Related parties**

Treasury Holdings, the ultimate parent of THCL, through its direct and indirect holdings in the Company and that of its concert parties, had an equity interest of not less than 50% of the stated capital of the Company at the year end. Treasury Holdings had common control over both the Company and THCL at the year end.

In accordance with the agreements with THCL and Treasury Holdings the Company incurred/ accrued the following fees in the 12 months to 31 December 2009:

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**27. Related parties (continued)**

**(a) Investment advisory agreement with THCL**

The Company and THCL entered into an investment advisory agreement dated 25 June 2007 pursuant to which THCL is responsible for the provision of investment advisory services for the Company's property assets and, at the discretion of the Company, development management and project management services. The agreement is for an initial period of three years from its July 2007 admission to AIM and will continue thereafter until terminated by the Company on 12 months' written notice provided that the agreement may be terminated by either party on shorter notice in the event of, inter alia, breach of contract or insolvency.

In accordance with the investment advisory agreement, THCL shall receive 50% (or a higher percentage decided by the investment manager) of the value of the performance fee in the form of allotted and issued ordinary shares in the Company ("Performance Fee Shares"). The number of Performance Fee Shares to be issued shall be calculated by dividing the amount of the performance fee to be satisfied by the Performance Fee Shares by the net asset value per share of the Group at the year end.

At 31 December 2007 the calculation of the 2007 performance fee was based on the movement in the adjusted NAV. Since 2008, all calculations have been benchmarked against the Group's performance as assessed on an EPRA NAV basis.

In June 2009, the following amendments to the terms of the investment advisory agreement have been agreed. These changes eliminate from any future performance fee calculation (i) any increase or decrease in the value of RMB against GBP; and (ii) any increase in net asset value per share arising from the Company repurchasing its shares. For the purposes of calculating any future entitlement to performance fees:

- i) EPRA net asset value at the end of each financial period will be expressed in RMB. The payment of a performance fee remains subject to a high water mark which will initially be determined by reference to the Company's net assets as at 31 December 2008 expressed in RMB at the exchange rate prevailing on that date; and
- ii) if the Company repurchases its own shares during any relevant period, the EPRA net asset value per share at the end of that period will be adjusted to eliminate the impact of the share repurchases on net asset value per share.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**27. Related parties (continued)**

**(a) Investment advisory agreement with THCL (continued)**

At the same time as agreeing the above, the board of Directors engaged THCL as investment manager for a further two years so that, except in certain specified circumstances, the earliest date on which notice may be given will be July 2012.

According to the revised investment advisory agreement, THCL was entitled to receive the following fees in 2009:

- i) Investment management fees of GBP1.57 million (2008: GBP5.29 million).
- ii) Development management fees of GBP1.82 million (2008: GBP2.46 million).
- iii) Performance fee accrual for the year of nil (2008: GBP43.77 million).

No performance fee was accrued for the year ended 31 December 2009 as the conditions described in the agreement were not satisfied.

**(b) Property management agreement with Treasury Holdings (Shanghai) Property Management Company Limited**

The Company originally entered into a property management agreement with Treasury (Shanghai) Real Estate Consulting Co. Limited (TSREC) dated 25 June 2007 pursuant to which TSREC was appointed to be responsible for the provision of property management services for the Company's property assets. In December 2008 this agreement was novated from TSREC to Treasury Holdings (Shanghai) Property Management Company Limited (THPM). The agreement was renewed on 10 June 2009 by the Company and THPM. Under this agreement, THPM is entitled to receive a property management fee equal to 110% per annum of certain defined expenses it incurs in providing the property management services during each period of 12 months. The fees incurred for under this agreement were GBP5.68 million in 2009 (2008: GBP0.77 million).

**(c) Accounting services agreement with Treasury Holdings**

The Company entered an accounting services agreement with Treasury Holdings dated 25 June 2007 pursuant to which Treasury Holdings provides certain accounting administrative services to the Group. The annual fee was subsequently revised to GBP200,000 according to the board resolution of the Company dated 21 April 2009. An accounting fee of GBP200,000 has been accrued for during the year.

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**27. Related parties (continued)**

**(d) Rental income from Treasury Holdings (Shanghai) Property Management Company Limited**

Rental income of GBP0.39 million was accrued during the year and is receivable from THPM in accordance with the rental services agreement.

**28. Group entities**

A listing of all group entities as at 31 December is set out below:

**Significant subsidiaries and joint ventures**

	<b>Country of incorporation</b>	<b>Direct %</b>	<b>2009 Indirect %</b>	<b>Direct %</b>	<b>2008 Indirect %</b>
Grand Eastern Limited	British Virgin Islands	100		100	
CREO (Shanghai Central Plaza) Limited	Jersey	100		100	
CREO (Shanghai City Centre) Limited	Jersey	100		100	
CREO (Pudong) Limited	Jersey	100		100	
Dream Land Properties Limited	Jersey	100		100	
CREO (Qingdao) Warehousing Limited	Jersey	100		100	
CREO NJ (I) Limited	Jersey	100		100	
CREO Finance I Limited	Jersey	-		100	
CREO XIDAN (NO.1) Limited	Jersey	-		100	
CREO Sliver Tower Limited	Jersey		-		100
CREO (Securities) Limited	Jersey	100		-	
Central Land Estate Limited	Hong Kong		100		100
Brightime Limited	Hong Kong		100		100
State Properties Limited	Hong Kong		100		100
Oakman Dean Limited	Hong Kong		100		100
CREO NJ (I) Limited	Hong Kong		100		100
Glory Achieve Limited	Hong Kong		100		100
Fine Run Holdings Limited	Hong Kong		100		100
Image Lead Group Limited	Hong Kong		100		100
Will Win Holdings Limited	Hong Kong		100		100
Shanghai Vision Honest Real Estate Development Company Limited	People's Republic of China		100		100
Shanghai Central Land Estate Company Limited	People's Republic of China		100		100
Shanghai Huatian Property Development Company Limited	People's Republic of China		100		100
Beijing Dream Land Industrial Development Company Limited	People's Republic of China		100		100
Beijing Treasury Industrial Development Company Limited	People's Republic of China		-		100
Qingdao CREO Logistics Park Company Limited	People's Republic of China		-		100
Nanjing CREO Investment Consulting Company Limited	People's Republic of China		100		-
Qingdao Shangshi CREO Real Estate Company Limited	People's Republic of China		-		50

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**29. Accounting estimates and judgements**

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that 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.

**Property valuations**

The fair value of each investment property and property under development is individually determined at each balance sheet date by independent valuers based on the market value on an existing use basis using a combination of methodologies, namely Direct Comparison, Discounted Cash Flow and Residual Approach. These methodologies are based upon estimates of future results and a set of assumptions regarding the property's income and expenses and future economic conditions. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

**Income taxes and deferred taxes**

Determining income tax provision, deferred tax liabilities and assets involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions, and tax provisions, deferred tax liabilities and assets are set accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

**Share-based payments**

As the Company was admitted to trading on the AIM in July 2007, it was not possible to ascertain the volatility of the Company shares in order to fair value the share-based payments granted to employees. Management therefore used a basket of peer companies with a similar asset and investor base in order to estimate the volatility of the share price of the Company for use in the binomial option pricing model (Note 19).

**Notes to the consolidated financial statements**  
**For the year ended 31 December 2009 (continued)**

**30. Post balance sheet events**

On 18 January 2010, the Company announced that it proposed to commit up to GBP15 million from its cash resources to fund a tender offer to purchase its own shares once the CREO Qingdao transaction (Note 13) has been completed and the sale proceeds received.

On 26 February 2010, the Company has made a non-binding submission to the Singapore Exchange to apply for an approval for admission to the Exchange.

**31. Approval of financial statements**

These financial statements were approved by the Directors on 4 March 2010.